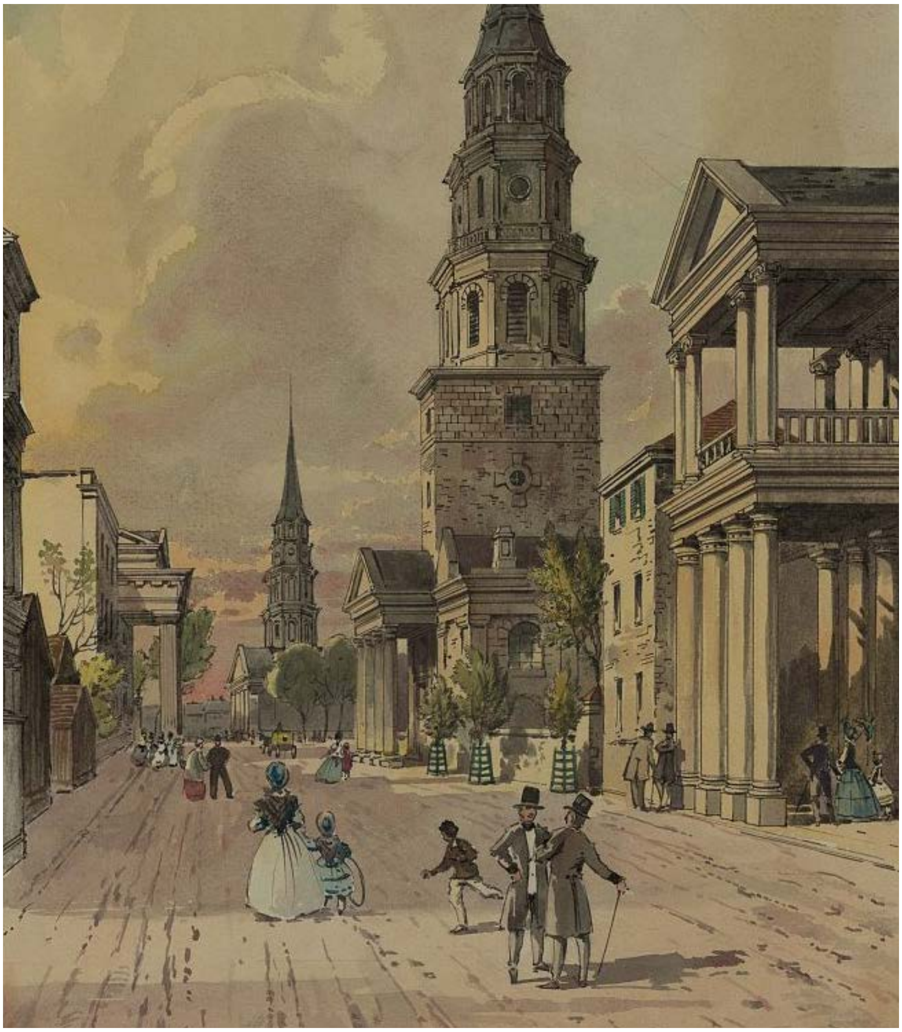
Financial History

The magazine of the Museum of American Finance



Free (Business) People of Color in Antebellum America

The Money Hackers: How Venmo Became a Verb

The Socialist Orphanage

ISSUE 135 | FALL 2020

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FINANCIAL HISTORY

The magazine of the Museum of American Finance

in association with the Smithsonian Institution

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Kristin Aguilera
Editor

ART DIRECTION
Alan Barnett Design

MUSEUM STAFF
David J. Cowen, President/CEO
Kristin Aguilera, Deputy Director
Robert Dinkelmann, IT/Technology
Maura Ferguson, Director of Exhibits
Sarah Poole, Collections Manager
Linda Rapacki, Managing Director of Visitor Services and Operations
Mindy Ross, Director, External Relations
Ben Urizar, Assistant Director of Visitor Services

Financial History is the official membership magazine of the Museum of American Finance.

MU$EUM OF AMERICAN FINANCE

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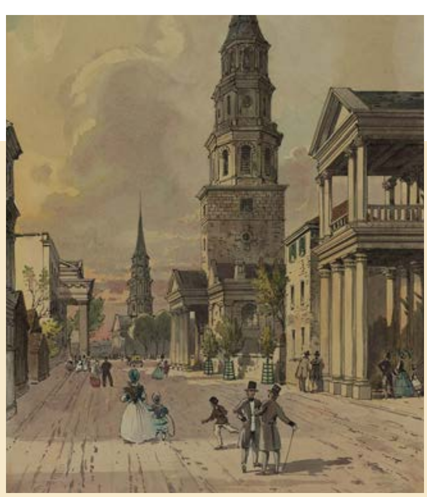
ON THE COVER

Broad Street in Charleston, South Carolina, showing St. Michael's Church, 1861. The Antebellum period witnessed substantial business ownership by "Free People of Color"—or FPCs—in Charleston. See related article, page 22



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Museum to Honor Roger Ferguson and Brian Moynihan at 2021 Gala

This year has been like no other. And as we plan our 2021 Gala, we acknowledge that it too will be like no other in the 14 years since its inception. The 2021 MoAF Gala will be held virtually on the evening of Monday, February 22, and will celebrate the accomplishments of two legendary financial industry leaders.

Message to Members

David J. Cowen | President and CEO

Roger W. Ferguson, Jr. will receive the Whitehead Award for Distinguished Public Service and Financial Leadership. This award honors leaders whose contributions in the public and private arena strengthen society and the profile of the financial industry. Ferguson is president and CEO of TIAA, the leading provider of retirement services in the academic, research, medical and cultural fields and a *Fortune 100* financial services organization. He is the former vice chairman of the Board of Governors of the US Federal Reserve System. As the only governor in Washington, DC on 9/11, he led the Fed's initial response to the terrorist attacks, taking actions that kept the US financial system functioning while reassuring the global financial community that the US economy would not be paralyzed.

Brian Moynihan will receive the 2021 Schwab Award for Financial Innovation. The Schwab Award recognizes individuals who have transformed the financial services industry and demonstrated outstanding achievement in advancing entrepreneurship and free enterprise. As chairman and CEO of Bank of America, Moynihan has innovated and transformed BofA despite a very challenging banking environment. BofA is now widely recognized as a powerhouse and leader in global diversity and inclusion and philanthropy. Under Moynihan's stewardship, the bank's focus on superior technology represents an essential differentiating factor in propelling BofA ahead of the curve.

While the presentation of our annual Gala will be different this year, it is more important than ever, as the funds support the entirety of the Museum's programmatic and educational offerings. This includes exhibits (currently virtual and at off-site locations), more than 30 public events per year, educational offerings including the Museum Finance Academy for high school juniors and seniors, the storage and maintenance of our world-class collection and the quarterly publication of this magazine. Every one of these is currently offered for free, as we seek to heighten financial awareness by maximizing the reach of our public and educational programs.

I hope to continue to see so many of you at our virtual programs presented in partnership with the Fordham University Gabelli School of Business. If you've missed any events that you are interested in viewing, you can find videos of many of them on our website at www.moaf.org/videos or on C-SPAN Book TV. Thank you, as always, for your continued support. $

The Museum will honor Roger W. Ferguson, Jr. (left) and Brian Moynihan (right) at its 2021 Gala on February 22.

Financial History Editorial Board Member Jason Zweig Receives Elliott V. Bell Award

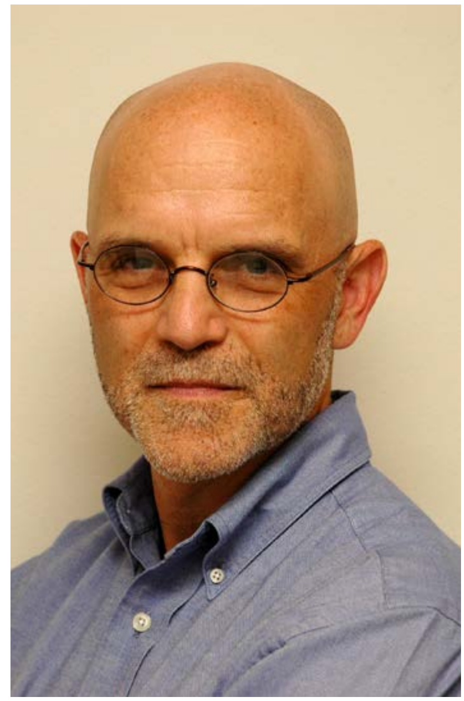
On September 29, the New York Financial Writers' Association honored financial journalist Jason Zweig with the Elliott V. Bell Award. Zweig, a columnist for *The Wall Street Journal* and the author and editor of several investing books, has been an active member of the *Financial History* editorial board for 30 years.

Zweig is the 44th annual recipient of the award, which honors journalists who have made a significant contribution to the field of financial journalism. Since 1976, many of the biggest names in financial journalism have joined the list of Elliott V. Bell Award alumni, including Gretchen Morgenson, Allan Sloan, Paul Steiger, MoAF Trustee Myron Kandel and long-time MoAF supporters Carol Loomis and Diana Henriques.

The award committee recognized Zweig for his decades of service helping average Americans navigate the often-murky world of investing and to make the most of their retirement savings. Zweig continues to do so today through his weekly "Intelligent Investor" column in *The Wall Street Journal*.

In addition to his work at the *Journal*, Zweig is also the author of *The Devil's Financial Dictionary*, a satirical glossary of Wall Street, and *Your Money and Your Brain*, on the neuroscience of financial decision-making. Zweig also edited the revised edition of Benjamin Graham's *The Intelligent Investor*; wrote *The Little Book of Safe Money*; co-edited *Benjamin Graham: Building a Profession*, an anthology of Graham's essays; and assisted the Nobel Prize-winning psychologist Daniel Kahneman in writing his book *Thinking, Fast and Slow*.

In addition to his involvement on the *Financial History* editorial board, he also served as a trustee of the Museum of American Finance. $



UPCOMING EVENTS CALENDAR

Nov 12 Lawrence Cunningham, in conversation with financial correspondent Astrid Doerner, on *Quality Shareholders: How the Best Managers Attract and Keep Them.* Presented in partnership with the Fordham University Gabelli Center for Global Security Analysis and the CFA Society New York. Conversation followed by Q&A. 12:00–1:00 p.m. Free; registration required. Registered guests will receive the Zoom link prior to the program.

Nov 16 JC de Swaan on *Seeking Virtue in Finance: Contributing to Society in a Conflicted Industry.* Presented in partnership with the Fordham University Gabelli Center for Global Security Analysis and the CFA Society New York. Talk followed by Q&A. 12:00p.m. Free; registration required. Registered guests will receive the Zoom link prior to the program.

Nov 18 Bruce Greenwald on *Value Investing: From Graham to Buffett and Beyond.* Presented in partnership with the Fordham University Gabelli Center for Global Security Analysis and the CFA Society New York. Talk followed by Q&A. 6:00p.m. Free; registration required. Registered guests will receive the Zoom link prior to the program.

Nov 20 "Still Lower for Even Longer: What Will Its Impact Be?" Panel discussion featuring Richard Sylla, Beth Ann Bovino, Peter Crane, Scott Hildenbrand, Sandy Rich and Aaron Sarfatti, with closing remarks by David Cowen. Presented in partnership with the CFA Society New York. 1:00–3:00 p.m. General admission $25; MoAF members $15 with discount code "MOAF" (all caps).

Feb 22 Annual MoAF Gala honoring Roger W. Ferguson and Brian Moynihan. Virtual format. 5:30pm VIP reception; 6:00pm program.

For more information or to register online, visit www.moaf.org/events.

Museum Acquires Two Documents Significant to Early US History

By Sarah Poole, Collections Manager

The Museum of American Finance recently acquired two significant artifacts documenting early US history for its permanent collection. Both were anonymously donated by a Museum trustee. The two documents date from George Washington's tenure as President and represent significant moments in Alexander Hamilton's construction of the financial system.

In August, the Museum received a printed copy of an Act of the Second Congress dated March 28, 1792, and signed by Thomas Jefferson as Secretary of State. With this Act, Congress enabled the President to appoint up to four Brigadier-Generals "as may be conducive to the good of the public service." The legislation served as a supplement to "the Act for making farther and more effectual Provision for the Protection of the Frontiers of the United States." Together, these Acts were passed in response to Native American uprisings following the Revolution, particularly in Kentucky and the Ohio River region.

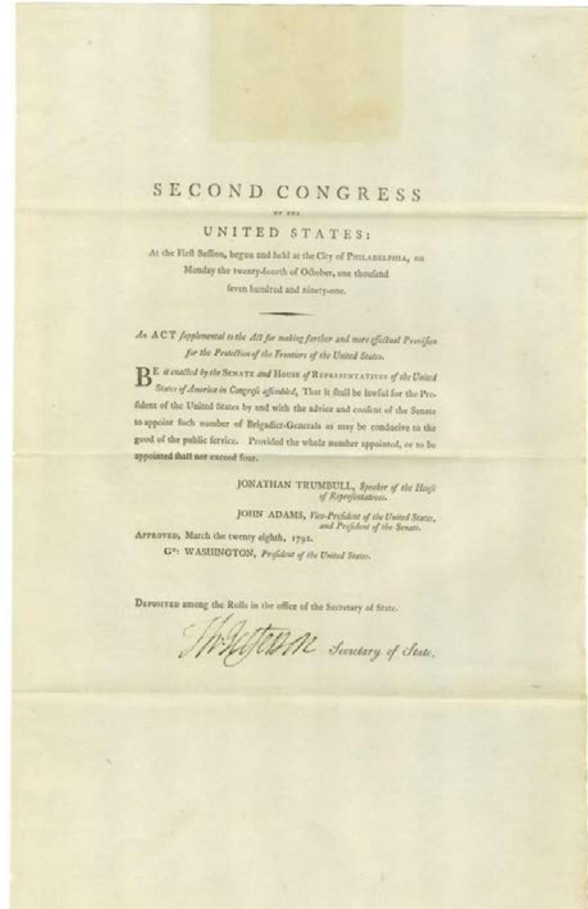
As Secretary of the Treasury, Alexander Hamilton became responsible for developing a plan to fund the forces that would defend the frontier. Hamilton used the opportunity to push through nearly all of the tariffs he had proposed in his December 1791 *Report on Manufactures* that had been rejected by Congress. The tariffs were solidified only five weeks later with the May 2, 1792 "Act for raising a farther sum of Money for the Protection of the Frontiers…" Along with Hamilton's two *Reports on the Public Credit* and his *Report on a National Bank*, the *Report on Manufactures* was integral to establishing the American economy.

In September, the Museum acquired a letter from Speaker of the House Jonathan Trumbull Jr. dated February 8, 1793 and addressed to "Your Excellency." It is unclear who the recipient was, but the letter references the Giles Resolutions. William Branch Giles represented Virginia's ninth district in the US House of Representatives from 1790–1798. He was a staunch supporter of Thomas Jefferson and James Madison in their opposition to Hamilton's financial policies. In early 1793, under the influence of Jefferson and Madison, Giles introduced resolutions to the House that accused Hamilton of mismanagement of the nation's finances. In his letter, Trumbull describes some the accusations as "tending to alarm the fears & apprehensions of the Public respecting the fiscal administration." Jefferson, Madison and Giles ultimately aimed to have Hamilton removed from his position as Secretary of the Treasury.

Trumbull also writes of Hamilton's response, revealing his opinion of the ordeal:

> I now take the Liberty to inclose [sic] to your Excellency—a Report of the Secretary—in reply to the Resolutions & Statement, so far as we have hitherto been furnished…the inclosed [sic] however is sufficient to show the fallacy & futility of the surmises which have been propagated—and which tend to explain to the impartial public, the Motives on which the accusations have been grounded—not the most honorable to the propagators.

Hamilton ultimately defended himself fervently and remained Secretary of the Treasury until he resigned from public office in 1795. However, the Giles Resolutions were representative of the growing conflict between Hamilton's Federalist ideology and the agrarian ideals represented by Jefferson and Madison. This conflict directly led to the formation of the nation's first opposing political parties: the Federalist Party and the Jeffersonian Republican Party. $


SECOND CONGRESS

OF THE

UNITED STATES:

At the Firſt Seſſion, begun and held at the City of Philadelphia, on Monday the twenty-fourth of October, one thouſand ſeven hundred and ninety-one.

An ACT *ſupplemental to the Act for making farther and more effectual Proviſion for the Protection of the Frontiers of the United States.*

Be *it enacted by the* Senate *and* House *of* Representatives *of the United States of America in Congreſs aſſembled,* That it ſhall be lawful for the Preſident of the United States by and with the advice and conſent of the Senate to appoint ſuch number of Brigadier-Generals as may be conducive to the good of the public ſervice. Provided the whole number appointed, or to be appointed ſhall not exceed four.

JONATHAN TRUMBULL, *Speaker of the Houſe of Repreſentatives.*

JOHN ADAMS, *Vice-Preſident of the United States, and Preſident of the Senate.*

Approved, March the twenty eighth, 1792.

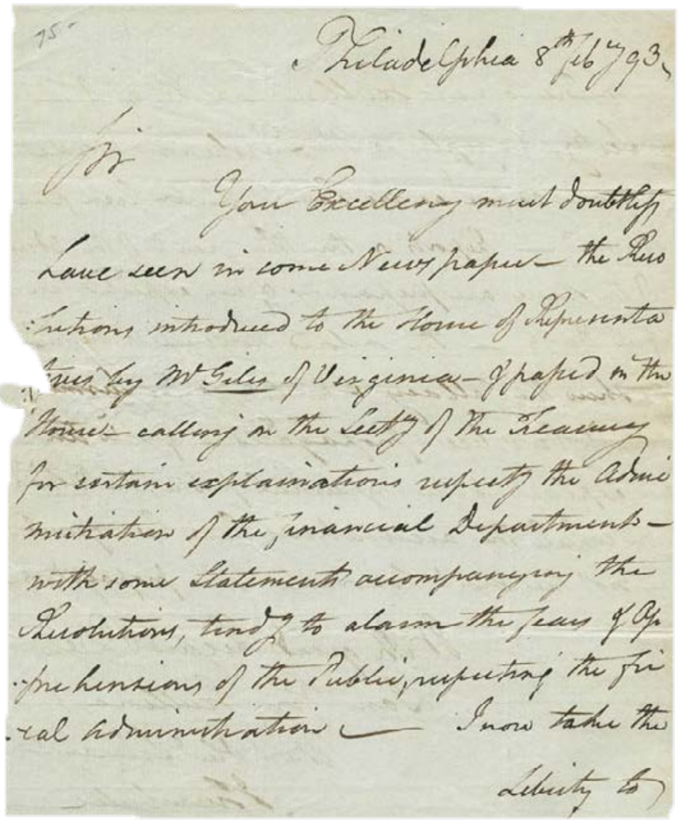
G°: WASHINGTON, *Preſident of the United States.*

Deposited among the Rolls in the office of the Secretary of State.

Th: Jefferson *Secretary of State.*

Collection of the Museum of American Finance

Act of the Second Congress signed by Thomas Jefferson as Secretary of State, March 28, 1792.

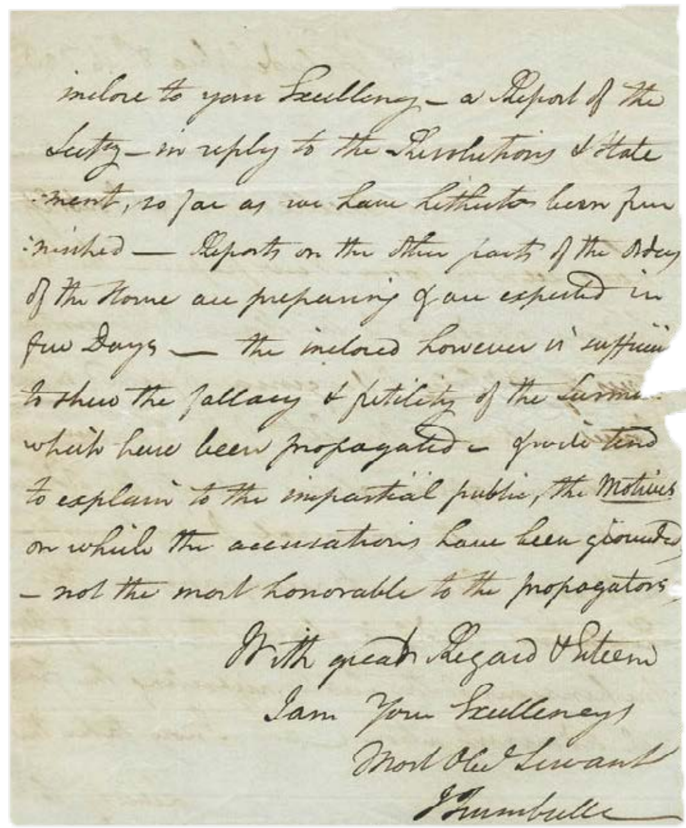


75

Philadelphia 8th Feb 1793.

Sir

Your Excellency must doubtless
have seen in some News paper the Reso-
-lutions introduced to the House of Representa-
-tives by Mr Giles of Virginia — & passed in the
House — calling on the Secty of the Treasury
for certain explanations respecting the Admi-
-nistration of the financial Department —
with some Statements accompanying the
Resolutions, tend[in]g to alarm the fears & ap-
-prehensions of the Public, respecting the fin-
-ancial administration — I now take the
Liberty to



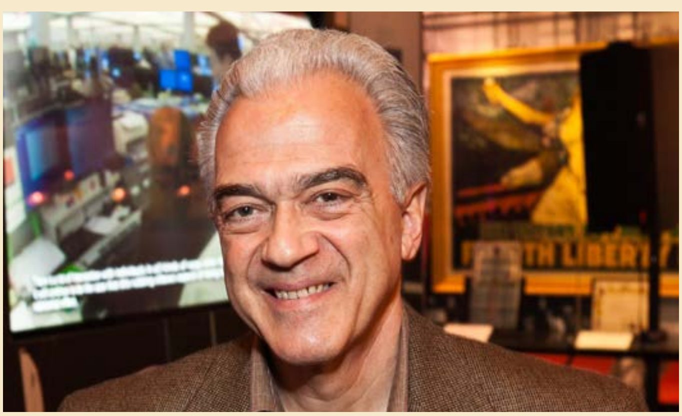
inclose to your Excellency — a Report of the
Secty — in reply to the Resolutions & State-
-ment, so far as we have hitherto been fur-
-nished — Reports on the other parts of the Address
of the House are preparing & are expected in
few Days — the inclosed however is suffici-
to shew the fallacy & futility of the Surmises
which have been propagated — & will tend
to explain to the impartial public, the Motives
on which the accusations have been grounded
— not the most honorable to the propagators.

With great Regard & Esteem
I am Your Excellency's
Most Obed Servant
J Trumbull

Collection of the Museum of American Finance

Letter from Speaker of the House Jonathan Trumbull Jr. regarding the Giles Resolutions, February 8, 1793.

In Memoriam



The staff and board of the Museum of American Finance mourn the loss of the Museum's accountant, Tony Critelli, who passed away on July 31. Tony joined the Museum initially as a consultant in 2010 after an accomplished career at several firms including Herzog Heine Geduld, Inc. We quickly realized he was invaluable. He was a full-time employee until his retirement in 2019. Best known for his exceedingly neat workspace, his meticulous bookkeeping abilities and his quick-witted sense of humor, he will be dearly missed by all who knew him.

The *Financial History* editorial board also mourns the loss of author and professor Anne Fleming, whose article, *City of Debtors: A Century of Fringe Finance*, appeared in the Summer 2019 issue of *Financial History* magazine. Anne was a Professor of Law at Georgetown University and the author of numerous articles on legal history and poverty law, as well as the award-winning book, *City of Debtors*. She passed away unexpectedly on August 25.

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* As of October 2020

Wild West Finance: The Johnson County Range War (Part 3)

By Brian Grinder and Dan Cooper

An insurrection exists in Johnson County in the State of Wyoming, in the immediate vicinity of Fort McKinney, against the government of said state. The legislature is not in session and cannot be convened in time to afford any relief whatever or to take any action thereon. Open hostilities exist and large bodies of armed men are engaged in battle. A company of state militia is located at the city of Buffalo near the scene of said action, but its continued presence in that city is absolutely required for the purpose of protecting life and property therein. The scene of action is 125 miles from the nearest railroad point from which other portions of the state militia could be sent. No relief can be afforded by the state militia and the civil authorities are wholly unable to afford any relief whatever. United States troops are located at Fort McKinney, which is 13 miles from the scene of action, which is known as the TA Ranch. I apply to you on behalf of the state of Wyoming to direct the United States troops at Fort McKinney to assist in suppressing this insurrection. Lives of a large number of persons are in imminent danger.

— Ambiguously worded telegram from Acting Governor Amos Barber to President Benjamin Harrison, April 12, 1892

The Johnson County Range War erupted in the spring of 1892 when tensions between large cattle ranchers and small struggling homesteaders came to a head. Investors from the East Coast and Europe poured money into open range cattle ranches because of the promise of riskless but substantial returns. These investors soon learned the timeless lesson that a "sure thing" almost always disappoints. The brutal winter of 1886–1887 coupled with overgrazing on the open range took the wind out of their sails, and many withdrew from the cattle industry after "The Great Die-up."

The actions of homesteaders and rustlers in Johnson County led members of the Wyoming Stock Grower's Association to embark on an ill-advised secret invasion of Buffalo where they planned to eliminate all opposition—real or imagined. However, bad weather along with an ill-advised decision to pause near Kaycee and shoot it out with Johnson County rebel Nate Champion ruined any chances of a surprise attack against the good citizens of Buffalo. Trapped at the TA Ranch 14 miles south of Buffalo and surrounded by hundreds of angry Johnson County residents led by Sheriff Red Angus, the invaders finally came to the realization that they were in grave danger.

The invaders' three well-stocked supply wagons had fallen behind the main group and were soon captured by Johnson County defenders. To their delight, they found food, provisions and ammunition, along with two cases of dynamite. Despite the loss of their supply wagons, the well-armed invaders dug in to defend the TA Ranch house and the surrounding environs. As night fell, they took stock of their situation and realized that they needed help, but the telegraph line was down, and they were surrounded.

Davis reports that, "A young man named Dowling stepped forward and offered to try to get through the lines around the ranch to Buffalo." Dowling made it to Buffalo, but since the telegraph line was still down, he was forced to ride more than 100 miles south to Douglas where he was able to wire Governor Barber.

Meanwhile back at the ranch, the number of defenders continued to grow as people from as far away as Sheridan made their way to the TA Ranch. No one thought it was wise to storm the well-armed, well-defended position of the regulators, and although frequent gunfire erupted, neither party made much progress. On the second night, the cattlemen and their hired Texas gunmen considered a breakout attempt but decided against it since the moon was shining bright. The next morning, Johnson County defenders modified one of the captured supply wagons and loaded it with the captured dynamite. The idea was to push the wagon, dubbed the "ark of safety" or the "go-devil," as close as possible to the ranch house and detonate it.

In the meantime, Governor Barber finally received news of the invaders' precarious condition and sent several unanswered telegrams to President Benjamin Harrison. In desperation, he telegraphed Wyoming Senators Carey and Warren. Warren, a friend of Harrison, went to the White House with Carey and Assistant War Secretary Lewis Grant in the middle of the night and urged the President to act immediately. In response, Harrison telegrammed an order to send federal troops to rescue the hapless raiders.

He then telegraphed Barber, informing him, "I have, in compliance with your call for aid of the United States forces to protect the state of Wyoming against domestic violence, ordered the Secretary of War to concentrate a sufficient force at the scene of the disturbance…"

"The rest," writes Smith, "was like the ending of a B-grade motion picture…"

US Cavalry troops from Fort McKinney arrived early the next morning and

Attorney Willis Van Devanter, future Chief Justice of the Supreme Court, led the defense for the big cattlemen.

rescued the invaders from a horrible fate.[1] The invaders surrendered to Colonel J.J. Van Horn and were taken to the fort. The next day, Sheriff Angus's formal request that the prisoners be turned over to him was denied.

Higher powers were busy at work, and the prisoners were briefly transferred to Fort Russell near Cheyenne. From there, the miscreants were transferred to the state prison in Laramie. The hired gunmen were soon released and sent back to Texas; the residents of Johnson County evidently bore them no ill will. Attorney Willis Van Devanter led the defense for the big cattlemen. Van Devanter, who would later serve on the US Supreme Court, developed a simple strategy of delay. This was effective because Johnson County was forced to pay for the room and board of the invaders while they were imprisoned. After a few months, the financial strain threatened to bankrupt the county and forced county officials to urge a resolution. Johnson County Attorney Alvin Bennett moved to dismiss the case on January 21, 1893, and the invaders walked away from the courtroom as free men.

Although the Johnson County invaders won the court battle, they lost the range war. The invasion marked the end of open range cattle ranching in Wyoming. Cattlemen were forced to rethink the process of raising cattle in Wyoming. This involved significant investments in land, fencing and feed production. Instead of leaving cattle out on the range to fend for themselves during the winter, they were kept near ranch headquarters where they could be watched over, fed and sheltered against brutal Wyoming weather.

Today, the COVID-19 pandemic has forced many businesses to rethink their operational processes. Restaurants, for instance, have implemented efficient, sanitary drive-through and delivery options. They have also created new indoor and outdoor dining facilities that allow for appropriate social distancing. Meat packers and warehouses have redesigned work protocols to reduce the spread of the virus in their work force. Some of these changes will undoubtedly remain after the pandemic subsides because the cost savings and efficiencies will continue to provide benefits.

Likewise, the cattle business continues to evolve and change in the face of external forces, and in many ways, the Johnson County Range War continues. Some argue that the western plains were never meant for cattle, and their continued presence in the West degrades the environment.

Mogul Ted Turner owns millions of acres in the West. For years he has advocated removing cattle from the western plains and repopulating the area with bison. While author Timothy Egan agrees with Turner's view on returning bison to the plains, he goes further, suggesting that westerners raise other, less environmentally damaging animals such as ostriches. Cattlemen demur.

Sustainability was an issue with open range cattle raising. The plains were initially seen as inexhaustible, but as more and more cattle found their way to the West, it became clear that overgrazing was occurring. The open range cattle model of the late 19th century was simply unsustainable. Of course, sustainability is an increasingly important issue in today's economy as businesses grapple with economic limits and environmental stewardship. In a recent *Wall Street Journal* article, Ilham Kadri, CEO of Solvay SA, argues, "Sustainability is profitability." Today's business leaders can learn a great deal from the errors of Wyoming's big cattle ranchers.

Finally, investors in open range cattle ranches deluded themselves in their fruitless quest for the "sure thing" investment. As economists John Kay and Mervin King note, "Risk-averse individuals are those who are reluctant to move outside the comfort zone of their established reference narrative. They seek certainties in a world of radical uncertainty by trying to limit themselves to a small, stationary world."

Year after year, whether it's open range cattle ranching, stock market ploys or Bernie Madoff Ponzi schemes, the small stationary world of "the sure thing" continues to plague investors. One of the worst approaches to risk management is to assume that risk doesn't exist.

Mark Gordon, the current governor of Wyoming, understands risk. He previously served on the board of the Federal Reserve Bank of Kansas City. Before becoming governor, Gordon was Wyoming's state treasurer. In that capacity, he used his financial knowledge and experience to modernize the way the state's $20 billion portfolio of public funds was managed.

It is ironic that Gordon, a Johnson County rancher, now holds the highest elective seat in the state. A wall in the treasurer's office holds portraits of everyone who has served as Wyoming state treasurer. A colorful bumper sticker sits perched over Gordon's portrait that reads, "Johnson County: We Haven't Trusted Cheyenne Since 1892." $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

Note

1. O'Neal disagrees, arguing, "It has been commonly assumed that the timely arrival of the cavalry saved the defenders from imminent annihilation. But the attackers had greatly outnumbered the defenders for two days, and although some of the younger attackers had boasted about how many gunmen they would kill, there had been no move to attack the TA fortifications." Starvation in an extended holdout, O'Neal believes, was the more likely scenario in the absence of intervention by federal troops.

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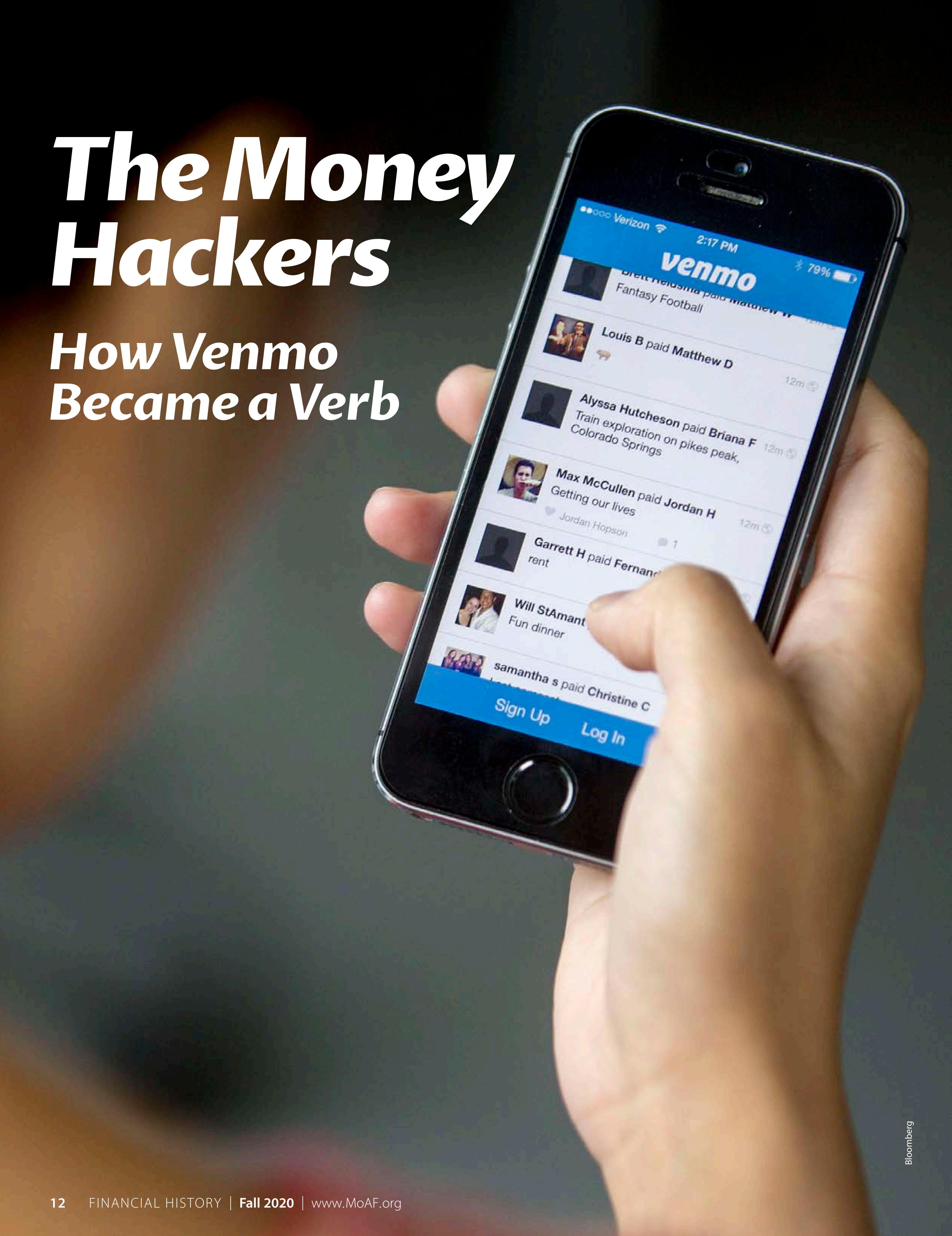
The Money Hackers

How Venmo Became a Verb



Bloomberg

By Daniel P. Simon

Companies like Venmo have altered how we think and talk about money. Rather than visiting a bank branch to send a friend or family member funds, we simply "Venmo" each other. But, this cultural and societal change didn't just happen overnight.

When Iqram Magdon-Ismail and Andrew Kortina decided to disrupt the world of finance, it was because Iqram forgot his wallet. This was 2009, and Iqram was spending a lot of time going back and forth to New York City from where he lived in Philadelphia. The trip was becoming somewhat routine for him: he would spend his weeks working at his day job and then spend his weekends in New York working with his friend Andrew on their new idea.

Magdon-Ismail had met Kortina when they were freshmen at the University of Pennsylvania. They were randomly assigned together as roommates, and, unlike many of those random pairings, this one was a good match. The two of them shared the same interests and aspirations, and even some of the same computer science classes, so they got used to working side by side. By the time they were seniors, they were collaborating on a small business idea, a college classifieds site they called My Campus Post. They spent their afternoons doing grassroots marketing and their nights writing code. It was an exhausting, exhilarating first taste of the life they both wanted: creating an internet startup.

My Campus Post never took off, but it was a great learning opportunity. Most of all, it taught Magdon-Ismail and Kortina that they wanted to keep working together. After graduating, they moved to New York and started working as programmers, hopping from startup to startup and collecting experience along the way. Then a company back in Philadelphia offered Magdon-Ismail a position as vice president of engineering. He took the job, but he didn't want to stop working with Kortina. They'd recently turned their attention to something big, something with real potential—something they were calling "Venmo." Venmo was a music app.

They got the idea while they were at a jazz show. The music was so good, but they would never be able to hear it again. Wouldn't it be cool, they thought, if you could send a text message to the band and have a recording of the live show emailed to you?

The idea had promise, but figuring out how to implement it was taking a lot of time—and that meant, more weekends than not, one of them was on a train traveling to meet up with the other for a couple days of brainstorming and coding. And one particular weekend, Iqram forgot his wallet.

Kortina told him not to worry about it. It wasn't the first time this sort of thing had happened to them, after all. They had been roommates for years, and over those years, they'd lent each other money for drinks, groceries, rent—and they'd always eventually gotten out a calculator, figured out who owed money to whom, and cleared their debt by writing each other checks.

How many times had they done this? Dozens? Hundreds? But this time, the thought of their old system made Magdon-Ismail laugh. A check? He wasn't even sure he knew where his checkbook was. He paid all of his bills online.

It was like a relic from a bygone era. If he could find that checkbook, he would scribble the amount onto that bank-issued piece of paper in barely legible handwriting and then have to mail the check to Kortina—which would mean buying a stamp and an envelope and finding a mailbox. Then, when Kortina received the check, he would have to find a bank branch, go there during its business hours, fill out one of those antiquated little deposit slips, and hand it to a bank teller along with some identification. Eventually—after a three- or five- or seven-day hold period—the money would be added to Kortina's account.

"Why are we still doing this?" In 2009, people were doing everything from their mobile phones—except moving money. Somehow, this most fundamental, basic thing was a capability that hadn't been invented yet. Why not?

Magdon-Ismail and Kortina had come across a spot of what technologists and marketeers like to call "friction," the chafe that happens when someone tries to do something that should be easy but isn't. Imagine a visit to the DMV. That shudder that runs down your spine is because of friction. Friction has been a driving force behind many of life's discoveries and inventions, and Venmo was no exception. "Let's just try to solve this problem," they decided.

Removing Friction

Magdon-Ismail and Kortina began work converting their mobile music app, Venmo, into a tool that people could use to exchange money. Why is it so hard to move money across the internet? In 2009, moving money on the internet wasn't new. Amazon and eBay had been up and running for nearly 15 years. Every major retailer had some version of an online shopping cart on its website, and, according to the US Census Bureau, e-commerce was generating more than $130 billion a year in sales.

And e-commerce wasn't just for people with credit cards, either. Banks were issuing debit cards that worked just as well for online purchases. Why was it straightforward to move money to Amazon and eBay but not to individual people?

All Magdon-Ismail and Kortina wanted to do was create an app that could transfer money from a personal bank account to someone else's. Their banks had websites that showed them how much money they had—so they knew this data was already in a digital format. Why was it so hard to access? And more to the point, why hadn't the banks created this functionality themselves?

One answer is the banks just didn't care. Banks had a long history of developing new technologies, but their idea of innovation was always aimed at making their own processes better and more efficient. Innovating the customer experience wasn't something that would have occurred to them, and even if it had, it wouldn't have been a high priority, least of all during the lean years that followed the market crash.

But for a software developer, creating a good user experience is paramount. Even if banks had wanted to build a tool for transferring money, it wasn't as straightforward a problem as it might seem. In 2009, according to the FDIC, the United States had just shy of 7,000 banks. Getting the banks to talk to one another was hard enough, but getting their databases to talk to one another—when each one had been built to its own custom specifications—was

somewhere between infeasible and impossible. It would have taken a lot of work, and banks had no incentive to do it. But Iqram and Andrew did—so they got to work.

Building the prototype, it turned out, wasn't especially hard. They were soon passing money back and forth to each other, leaving a long trail of SMS receipts of their transactions: "Iqram 20" quickly evolved into "Kortina paid you $20 for Thai lunch at Nooch." It was working.

What wasn't working, though, was getting funding. They took one meeting after another, but couldn't get anyone to take them seriously: they had no track record, no user base and a prototype cobbled together on top of Google Voice—not enough to reassure a venture capitalist. One investor interrupted Magdon-Ismail and Kortina's presentation to tell them he was only interested in "billion-dollar, home-run opportunities." "This will be a trillion-dollar company," Magdon-Ismail shot back. The investor wasn't convinced.

Most investors hadn't heard of this thing called "fintech," a field that wasn't quite finance and wasn't quite technology. There was no reason to believe that, as a sector, it would be profitable. What was their plan to monetize? How was this little tool for trading small amounts of cash between friends ever going to make a substantial profit?

Magdon-Ismail and Kortina didn't have clear answers. But that didn't change their commitment to the app. They continued to find ways to make the user experience more seamless, improving it one iteration after another, sending countless text messages back and forth across the system.

Then they noticed something. Their collection of text receipts was starting to paint a vivid, if accidental, picture of their lives. The list of transactions showed where they liked to eat and drink, what bands they liked to see, who they were spending their time with. Every time someone passed money to someone else, it was because there was something interesting going on—and, collected together, all of this information about a person's transactions started to tell a unique story.

What they had created, by pure accident, was a social news feed. Venmo wasn't just a way of moving money. It could also be a social network, broadcasting real-time data information about its users. This could be huge. If only they could get some money.

Roommates and Venmo founders Iqram Magdon-Ismail and Andrew Kortina

Bill Ready, "The Fixer"

Bill Ready knew a thing or two about money. He was an unlikely dot-com entrepreneur: he had never even used a computer until he arrived at college. But he was a quick study. He dove into software engineering, and before he turned 30, he was president of an online bill payment company called iPay. When iPay sold for $300 million, Ready moved on to take over one of the most important internet companies you've probably never heard of: Braintree. For Braintree, being next to invisible to its users is a feature, not a bug.

Bill Ready, the unlikely dot-com entrepreneur who became CEO of Braintree and Venmo

Founded in 2007, Braintree became the digital expert at taking all of the various steps that make up an e-commerce transaction—the 10 to 15 different handshakes and data submissions and switches and verifications—and bundling them up so they can be integrated easily into a website.

Ready's goal for Braintree was simple: "How can we democratize access to the tools that have been the exclusive domain of only the biggest e-commerce players and give them to everybody? How do we take the fire from the top of the mountain and give it to the masses to make sure that it benefits the many rather than benefiting the few?"

Braintree's software allowed merchants who wanted to accept payments online to offer their customers an easy, frictionless shopping experience, just as good as Amazon or eBay. Braintree could handle all of the technical and regulatory complexity so that merchants could focus on the products they wanted to sell.

Braintree created, in essence, a plug-and-play shopping cart that the whole internet could use. For anyone running a small business online, this was revolutionary. But when Ready took over Braintree in 2011, the company pivoted in a direction that no one else saw coming and created the innovation that would power so much of the fintech and e-commerce we have today.

Ready thought Braintree should start building a platform for mobile shopping. In the first years of the iPhone, people weren't using them much for shopping. The experience was just too terrible. By 2011, the iPhone had been out for four years and the App Store had been open for three, and three of its bestselling apps were Angry Birds, Skee-Ball and The Moron Test. The bleeding-edge smartphone of the day was the iPhone 4, which ran on a still being-developed 3G network that was slow and unreliable. Smartphones weren't being used for serious things, including serious shopping.

If people did want to shop on their iPhones, they had to visit websites that hadn't yet been optimized for mobile—so they would have to pinch and zoom just to see what they were buying. Then they would have to type in their credit card information with their thumbs—all of it: name, billing address, the 16 digits of the credit card and the CVV number.

By 2011, Amazon had implemented 1-Click purchasing on its site, but generally, websites weren't saving credit card credentials; they were asking users to type in their card information every time they made a purchase. Collecting and storing credit card data always carries some risk, and storing this data with PCI compliance requires ongoing expense and care. There just weren't enough reasons for most vendors to go to all that trouble. As long as people were shopping through their desktop and laptop computers, they had access to full-size keyboards, and typing in their payment details each time didn't seem like much of a bother. On a mobile device, it was a pain in the ass.

In those rare cases when consumers did go to the trouble of all that thumb typing, they would have to hope that, when they hit the Submit button, the 3G network didn't drop their connection—because if it did, they would have to start the whole transaction over, without knowing whether or not the first one had gone through.

With all those deterrents to mobile shopping, the e-commerce industry didn't believe smartphones were worth the investment of their attention or, more importantly, their money.

Ready thought otherwise. "I started looking at our traffic logs, and I'd see a half percent, one percent, one and a half percent of our traffic was coming from mobile." He started thinking about Moore's Law, the famous principle that computing power doubles every two years, and he realized: in just a few more years, phones were going to become the main way people did their shopping. He knew he could have Braintree build out the tools to make this possible—but to justify the company's expense, he also needed customers who would be willing to buy those tools. And convincing them wasn't easy. "I would say, 'Someday, people are going to buy TVs and clothing—everything you buy on e-commerce, you will buy on your phone.' And I'd get laughed out of the room."

True Believing

Ready also didn't have any data to prove his point. He was seeing into a future that hadn't happened yet. "When we did our first native mobile payment APIs, we literally had tick marks on the wall for each transaction. We would literally count them, because there was nobody trying to do that."

It was a vicious cycle: as long as the consumer's experience was bad, people wouldn't shop on their phones. But until people started shopping on their phones, merchants didn't see any need to improve the mobile experience. Bill knew he was going to have to find a way to break the cycle. He was going to have to improve the customer experience on his own.

Braintree was one of the main go-to companies for any small business that wanted e-commerce, on a mobile phone or not, and the company already had relationships with most of the early mobile winners—Uber, Airbnb, Dropbox and Angry Birds. All of them told Ready the same thing: their biggest falloff in the customer acquisition funnel—the place where they were most likely to lose prospective customers—was the point where the person had to type in credit card information. As long as they could get customers to enter their card info that first time, then the apps could save the information, so users would never need to enter it again and would be able to make future purchases with the push of a button.

But customers *really* didn't want to enter all that information, even that first time. Ready knew something that these customers didn't: the credit card information that they thought was being saved by Uber or Airbnb (founded in 2009 and 2008, respectively) or Dropbox or Angry Birds was actually being saved by Braintree. "We had the payment credentials. So, imagine a user that would sign up for Uber, sign up for Airbnb, sign up for Dropbox, go play Angry Birds. They would be asked to reenter their payment information for each app. And that would be this huge pain point in every single one of those apps. But we already had the payment information for that user. We knew who that user was. We had the technical ability to make it such that, when you went from one of those apps to the next app, we could just pop your payment information there if we wanted to—at a technical level."

But Ready knew he couldn't do that. "The user would have completely freaked out." Braintree had been so successful at making itself transparent to customers, at hiding its brand and its whole existence from the shopper, no one knew that half the e-commerce sites on the internet were running on the platform and capable of sharing payment information across different brands.

PAYMENT GATEWAYS

Online shopping has become so commonplace that people don't think about how complicated it is. You hit the "Buy Now" button and it works. Magic. But there are a remarkable number of complicated steps that go into making that magic, and the steps are collectively known as a "payment gateway."

First, anyone who wants to receive credit card information on the internet has to follow guidelines spelled out by Visa, Mastercard and the other members of the payment card industry; their technology has to be what is called "PCI compliant."

PCI compliance requires the use of bank-level data security: established cryptographic protocols for encoding sensitive information; safeguards for protecting that information where it is stored; and maintenance and testing to make sure those systems are, and stay, secure.

Bank-level security isn't easy and it isn't cheap. The expense is a justifiable investment for big online retailers, but for small businesses—or for individuals who want to pass money between each other—it is completely out of reach.

And PCI compliance is only one part of the process. Once the credit card data is sent securely across the network, the receiving end has to translate those 16 numbers into an actual payment. Is this string of data attached to a Visa, a Mastercard, a Discover, an American Express? Before the merchant can check to see if the credit card number is real, verify that it belongs to the person who submitted the order and confirm there is money available in the account, the merchant must first figure out which credit card company to ask. The software that does this, a "payment switch," interprets the data and handles the connection with the issuing bank.

Then that credit card company—the issuing bank—goes through its own verification process. Debit card transactions get routed through the account holders' banks. Security checks run to protect against fraud.

The average credit card transaction goes through roughly a dozen individual steps before it can be approved—and these steps all happen in the two or three seconds between pushing the "Buy Now" button and seeing the confirmation screen. Like magic.

"Braintree had millions and millions and millions of credit cards on file and known users and known devices. But what we needed was a consumer network. We needed a way for the consumer to understand when they came to that next app, how in the heck did their payment information become available." He needed to make his invisible brand visible so consumers wouldn't get freaked out. He needed a social network.

When Ready found Venmo, it had just 3,000 users, all of them in New York—and had roughly that same number of dollars in the bank. The company had just notified its employees that they were planning to shut the doors. "They had run out of money, and they didn't have a monetization model." But Ready thought they might be exactly what Braintree needed.

Venmo is a "peer-to-peer" service that connects people directly to other people. "There's an inherent virality in P2P services. If somebody sends you money, you sign up. You have a strong incentive." As more people use it, more people sign up—and you build a mass of users who have opted into the service.

Ready imagined merging Venmo's users with Braintree. "That could be a way to go build the consumer network and have people understand how their payment details were available in the next place." If people knew that they had signed up for Venmo, and their Venmo information was suddenly available to them across the entire network of Braintree apps and sites, they would understand that their credentials had jumped from site to site because of their membership on Venmo. In 2012, he decided that he was going to buy Venmo.

"I had to wire them money to make payroll so there [would still be] employees there when we finished closing the deal."

Ready also knew the key to monetizing the platform. It costs money to send money—to interact with banks and PCI-compliant payment gateways. "Customers don't want to pay for those services. But if you bring a consumer to a merchant, the merchants are happy to pay for those services. That's how payments have been working for a long time. We can monetize from the merchant side of this."

With the addition of Venmo to Braintree's arsenal, the company was able to offer a "push-button" buying experience that would work not just in a single app but across any app that used Braintree's payment gateway—literally millions of merchants. Mobile shopping was about to get a lot easier.

The following year, Braintree processed $12 billion in e-commerce transactions and a third of them were on smartphones. As Ready had predicted, Braintree was able to monetize Venmo while also rapidly growing its user base. That's when he got a call from John Donahoe, the CEO of eBay and its subsidiary, PayPal.

In the world of online payment, PayPal was and always had been the giant gorilla. Founded in 1998 and one of the great IPOs of the dot-com boom, the company grew every year after, and by the time Donahoe reached out to Ready, PayPal had 137 million active user accounts and was processing almost eight million payments every day.

But, like just about everyone else, the company had failed to see the coming importance of smartphones. "We know we need to rebuild PayPal for native mobile," Donahoe told Ready. "We want you to bring your technology here." PayPal bought Braintree, and Venmo along with it, for $800 million in cash.

As of 2019, mobile payments make up more than 40% of PayPal's business: people used it to transfer money over their phones to the tune of $19 billion in the last quarter alone. With the push of a button.

Shopping and sending money with our phones has become commonplace. This change didn't happen because of banks, though banks had all the technology they needed to do it. It happened because a few people outside of the banking industry saw what the banks weren't seeing, and they seized the opportunity. But banks see it now.

In 2016, a consortium of some of the biggest banks in the United States—JPMorgan Chase, Bank of America, Wells Fargo, PNC and others—formed a joint venture called Early Warning Services. The following year, the company released Zelle, a mobile app that lets users send money to other Zelle users—directly competing with Venmo.

Because Zelle has direct access to all of its banks' members, its network has grown quickly, reaching 27.4 million US users and processing $75 billion in payments in 2018. And because Zelle is operated directly by the banks, it is able to move the money instantly, without Venmo's one- to three-day delay.

The only thing Venmo has that Zelle doesn't have is a social feed—and to some Zelle users, this is an improvement: many people are resistant to the idea of broadcasting their financial transactions out into the world. But this, too, might be something that is shifting beneath the banks' notice, because plenty of people—especially younger people—do prefer the social feed. "30% of all Venmo payments use emojis," Ready said of his service, "and that number is growing."

It's hard to know what to make of this. Maybe the idea of an emoji-based social feed that broadcasts our spending is a fleeting moment in history. But it absolutely reflects a fundamental shift in the way our society is interacting with, and talking about, money. Thanks in part to Venmo, there are people who will never walk into a bank branch, because they can beam each other money from their phones. And after centuries of taboo around the idea of talking about finances, people are willingly transmitting this information out to the world. A generation ago, this would have been unthinkable. Even in 2010, it was practically unthinkable.

Cultural change is happening right in front of us, incredibly quickly. And it's not yet clear if the banks will be able to keep up. $

Daniel P. Simon is a writer, entrepreneur and financial communications expert. He has been part of the Fintech Revolution since its inception, advising on some of the biggest brands in the space including Morgan Stanley, Bloomberg and Goldman Sachs. Daniel's focus on finance and its future led him to become CEO and Co-Founder of Vested, an integrated communications firm where he and his team partner with top financial and fintech companies. For more information on Daniel Simon and his new book, The Money Hackers, *visit https://danielpsimon.com/.*

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THE SOCIALIST ORPHANAGE

"Success has many fathers and failure is an orphan."

Hulton Archive / Stringer

OLLE LINDEBORG

By Daniel C. Munson

The merits of socialism are again a hot topic of political debate and discussion—debates often more heated than enlightening. Politics is properly concerned with the future, but debates over socialism often focus on whether history can teach us anything. In the case of socialism, the answer is: quite a lot.

Collective ownership of productive assets is the textbook definition of "socialism." Such collectivizing can be accomplished in different ways. The pooling of assets can be voluntary, so that the members of the group are self-selected. If not voluntary, confiscation of the assets from those who built or grew or bought or otherwise own them is necessary, something eventually requiring force. Less violently, income can be taxed at very high rates so that the benefits of owning those assets are transferred from the owner to the group. All these methods have been tried, with results that have led not to any real effort to understand them but instead to intellectual contortions on the part of socialist thinkers to disown them. One popular approach is to dismiss earlier forms as not the "true" socialism they envision, one that—they assert—has yet to be tried.

An early and eloquent spokesman for this idea of collective ownership was an 18th century Swiss, Jean-Jacques Rousseau. Born to an upper-middle class family in Geneva, Rousseau led a directionless life until about the age of 37, when the announcement of an essay contest in a Parisian literary magazine got him thinking:

> Crowds of vivid ideas thronged into my mind with a force and confusion that threw me into unspeakable agitation. I felt my head whirling in a giddiness like that of intoxication. A violent palpitation oppressed me. Unable to walk for difficulty of breathing, I sank down under one of the trees by the road, and passed half an hour there in such a condition of excitement that when I rose I saw that the front of my waistcoat was all wet with tears…Ah, if ever I could have written a quarter of what I saw and felt under that tree, with what clarity I should have brought out all the contradictions of our social system! With what simplicity I should have demonstrated that man is by nature good, and that only our institutions have made him bad!

Top: The Beatles wrote lyrics in the mid-1960s decrying Harold Wilson's Fabian socialist state. The song "Taxman" opens with the line, "Let me tell you how it will be, There's one for you, 19 for me." Bottom: The popular Swedish rock band ABBA wore ridiculous, sequined outfits on stage because the high cost of such outfits could be deducted from their taxes, but only if the outfits were too outrageous to be of use as street clothing.

Rousseau set about writing essays, discourses, even novels. His underlying premise remained: "Man was born free and is everywhere in chains." He saw in advanced civilization—its property laws, science, art, the church—decadence, hierarchy, inequality, greed, moral decay: i.e., the chains. He traced the source, the wellspring of this immoral civilization: "The first man who, having enclosed a piece of ground, bethought himself of saying 'This is mine.'"

Rousseau's ideal was a rustic village of simple yeoman farmers. A rural collective. A charming notion, and one that appealed to the utopian mind. After all, if our civilizing institutions have made us bad, replacing them with better ones would result in a better humanity—and who isn't in favor of a better humanity? (If the reader can put this riveting article down for a moment, they might agree that there is some humanity within eyeshot that could stand some improving.) Rousseau was also offering his followers a form of absolution, erasing the guilt they might feel for past misdeeds and placing blame squarely on some flawed institution.

If private property is the root cause of greed and civilization's decay, then the institutions responsible for protecting such property—the courts, the deed registrars—should be changed. Reflective persons might observe that there are many types of greed—sexual greed, the grasping for power, the drive for adulation and attention—but Rousseau and his followers focused on the one dealing with property, the one protected by those institutions, the one they could do something about.

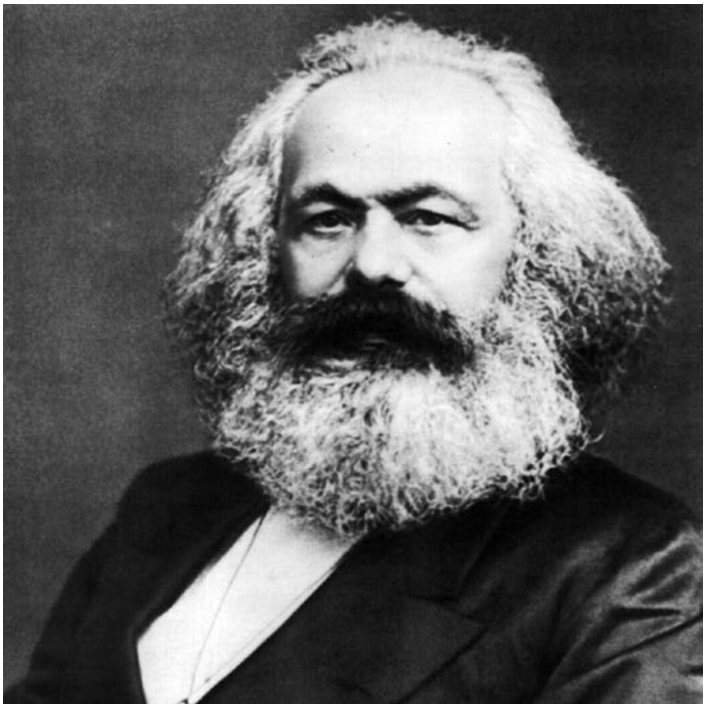
Voluntary sharing of property was one obvious solution. It was first tried in the utopian communes of the early 19th century: secluded, rural communities organized by wealthy, influential leaders like Robert Owen of Scotland and Charles Fourier of France. Such communes banned the arms-length transactions involving labor and goods that were thought to be based on greed. Members worked the property for the benefit of all the commune's members.

By the mid-19th century, however, it was clear such communes could not sustain themselves and were failing due to inefficiency. Robert Owen's son worked alongside his father in their failed commune in southern Indiana, and later wrote that, "I do not believe that any industrial experiment can succeed which proposes equal remuneration to all men, the diligent and the dilatory." Such communes were in this way like many family businesses, where the ambition and skill of the founder(s) is not necessarily shared by other family members.

A broader and more sustaining mandate was needed, one that could extend the reach of the theorist to everyone and exist in perpetuity—i.e., one involving government. German philosophy was ideally suited to provide one, a strain of which had a love affair of sorts with government. The cronyism and corruption that generally plagued government action in practice did not seem to trouble them, and they saw the possibility of bringing about a governmentally mandated utopia. Prominent Prussian philosopher Georg Hegel was enchanted by the idea of unified state action to direct seemingly chaotic individual behavior. "The modern State, proving the reality of political community, when comprehended philosophically, could therefore be seen as the highest articulation of Spirit, or God in the contemporary world," he wrote, concluding "The State is God's will."

First, however, such thinkers had to explain the failures of these utopian communes. Young Karl Marx of Trier, Germany cut his intellectual teeth critiquing utopianism. He argued that organizers made their error in appealing to all, ignoring the fact that society is composed of classes whose interests are at odds with one another. Marx reasoned that the working class—what he called "the proletariat"—that was developing around the machinery of the industrial age had to take control from the capitalists—"the bourgeoisie"—by force and impose a new governmental order that would collectivize all property and eventually rid society of classes and greed. In deference to these early utopian experiments, he called this final, blissful, classless and greedless world "communism."

The idea had a certain appeal when it was floated in Marx's 1848 work *The*



Karl Marx

Eugen Richter

Communist Manifesto. Industrialism did seem to be changing everything, and it was certainly creating some losers. Early industrial machines were not very productive and required little skill to operate. Then as now, supply drives down price, and industrial wages were low. Marx exhorted low wage workers to "unite" in revolution against the capitalists, telling them they "have nothing to lose but their chains!" (That "chains" motif again.)

Marx then began work on his magnum opus, what would become *Das Kapital*. (Marx wrote for English-language newspapers but preferred to write in German.) He worked on it at the British Museum in London, where his place of study later became a shrine of sorts. It took him until 1867 to come up with Volume I. In it, he concluded that the divide between industrial workers and management was unbridgeable, that capitalists would maximize profits at the expense of workers, whose wages would inevitably decline as their numbers increased.

Marx was not the first nor the last person to effectively analyze a point in history just as conditions began to change. Alongside the path he took to the British Museum, the world was changing in ways his theories could not explain. During the 1850s, '60s and '70s, faster and more powerful machines used in London and elsewhere empowered those tradesmen with the skills to use them effectively, and as they became more productive their wages tended to increase rather than decline as Marx predicted. The prices of goods that could be purchased with those wages also declined as goods of all types became more plentiful. A perfectly good theory was being shot down by the dreadful specter of reality.

German philosophers may have been entranced by these socialist plans, but other, pragmatic Germans could see problems. Prussian politician Eugen Richter composed a little novel entitled *Pictures of the Socialistic Future*, published in 1891, a first-person account imagining the effects of Marxist socialism on a modest German family that is initially enthusiastic for the proposed changes. Family members begin to grumble as their bank balances are confiscated (to achieve financial equality), their children are placed in state-run orphanages (promoting formative equality) and their "unnecessary" furnishings are taken and re-purposed. The family is temporarily heartened by the government's plan to allow citizens to choose their occupations. When the citizenry registers its job preferences, however, it is discovered that there are "a greater number of persons registered…as gamekeepers than there are hares within forty miles' circumference of Berlin," and that, "The number of young women who have put their names down as waitresses and public singers is very considerable."

At the same time, "The entries for the more arduous labors of the road paver, the stoker, the smelter are more sparse," and, "Those who have manifested a desire to become cleansers of sewers are, numerically, not a strong body." The idea is abandoned, and people are assigned jobs and relocated, with predictable effects on morale. The young and ambitious begin to leave. Fences are erected to halt the exodus. Armed sentries are ordered to shoot those attempting to flee.

Karl Marx died in 1883, still largely deaf to the incredible material progress of the late 19th century—railroads, the telegraph and telephone, the automobile—that was occurring all around him. Most other economic thinkers around Marx couldn't help but notice. Many had to concede that the institutions protecting private property and the capital markets that so quickly and ambitiously commercialized these advances were in some way responsible for this progress.

Socialism had to adjust. In London, just down the road from where Marx did his theorizing, a group of economically minded socialist thinkers coalesced, a group that could acknowledge what Marx could not. They called themselves "Fabian" socialists after Roman general Fabius Maximus (Fabius the Delayer),

and they believed not in revolution but in gradual change, and in private property, and in taxing the rich rather than overthrowing the institutions that produced the rich. They knew Marx, and they understood his limited vision. The most famous of them was Irish playwright George Bernard Shaw, who wrote that Marx was "without administrative ability," and his theories "generalized the human race under the two heads of bourgeoisie and proletariat apparently without ever having come into business contact with a living human being."

Marx's ideas were impractical, but they were too appealing to some, and events furnished these ambitious acolytes the opportunity to impose Marxist order on large masses of people. They took control of governments throughout the world in the 20th century: Russia and China most visibly, but other places like Cuba, Vietnam, Cambodia, Tanzania, North Korea, Congo, Venezuela and throughout Eastern Europe. These were places where industrialism was less advanced, and Marx's 1848 ideas could still resonate. In more technologically advanced places like Germany and Italy, the collectivist impulse channeled high tax revenues into garish, cruel, aggressive regimes that rejected the Marxian goal of an international workers' paradise in favor of an ethno-centric, "nationalistic" socialism.

Looking back on the century, Oxford historian Paul Johnson diagnosed the problem as a fascination with abstract social science which, alas, wasn't science at all. He wrote that "by the year 1900 politics was already replacing religion as the chief form of zealotry."

The experience of the ordinary citizen in these Marxist states followed Eugen Richter's novel, although the killing of the noncompliant began even more quickly than Richter predicted. It was horrific. Modern-day socialists now busy themselves with re-interpretation of these dreadful places. The killings, the slave laboring, the vast spending on munitions, the industrial inefficiency and pollution and nuclear meltdowns they cleverly dismiss as "state capitalism," despite the fact these countries had no commercial banks or capital markets.

The Fabian Socialists, meanwhile, achieved some political success at the ballot box, notably in Britain and Scandinavia. The post-World War II British Labour governments of Clement Attlee, Harold Wilson and James Callaghan nationalized industries, expanded public services and pushed marginal income tax rates to over 80% on upper middle-class incomes and to over 90% on high incomes. Similar initiatives were taken by governments in Scandinavia.

The freedoms the Fabians preserved, however, became a problem. Fabian socialism involved no border restrictions, no limitations on free expression. These freedoms produced a backlash amongst an odd new group the theorists could never have anticipated: the young, self-made rich, creatures our modern age has spawned and endowed with much social significance.

The fabulously successful British rock band The Beatles wrote lyrics in the mid-1960s decrying Harold Wilson's Fabian state. In "Taxman," the song opens with the taxman explaining to them "Let me tell you how it will be, There's one for you, 19 for me." (This is not hyperbole. One for you and 19 for the taxman is simply a tax rate of 95%, or as a Beatle might see it: one measly shilling, or "bob," out of every pound of earnings.)

Another British rock star, Mick Jagger of the group The Rolling Stones, explained in a television interview the band's move from Britain to France at about the same time: "In those days, in England, the high tax rate was 90%, so that's very hard… You made 100 pounds, they took 90. So it was very difficult to pay any debts back. So when we left the country, we would get more than the 10 pounds out of 100. You know, we might get 50 or something."

Swedes watched their famous movie director, Ingmar Bergman, move to Munich and their star tennis player, Bjorn Borg, move to Monaco to escape Swedish tax collectors. The popular Swedish rock band ABBA wore ridiculous, sequined outfits on stage, because the high cost of such outfits could be deducted from their taxes, but only if the outfits were too outrageous to be of use as street clothing. "Nobody can have been as badly dressed on stage as we were," commented one band member years later.

The young rich were more notorious than numerous, so the harsh taxes paid by those who remained were inadequate to support the increased spending. Britain tried to control the resulting inflation by limiting pay raises. Workers responded by going on strike. (Fabians also preserved the freedom to strike.) In 1978, truck drivers and garbage collectors struck to protest the Labour government's proposed pay limits. Shortages resulted—food, petrol, heating oil—during the bitterly cold winter of 1978–1979. Looking over the piles of uncollected garbage, Prime Minister Callaghan found conditions positively Shakespearean: he called it Britain's "winter of discontent."

These unintended consequences caused a political backlash. The Tories wrested control of Parliament from the Fabians in May 1979 and reduced union control over workplaces. Top marginal rates were gradually reduced in Britain and Scandinavia from those 80–95% levels to around 50% today.

Time and heating oil have healed the chilblains of the 1970s, however. The sting gone, some of today's politicians ignore or disown the unfortunate consequences of those socialist policies. They offer new benefits to be financed by higher taxes on "the few," telling voters theirs is a new idea.

Economic history, unlike politics, has no such recuperative power. Disowning and orphaning these events cannot heal them of their plain meaning. $

Dan Munson enjoys reading and writing financial and scientific history and worked for many years as a chemical engineer. His writings have appeared in Barron's, Financial History *and other publications.*

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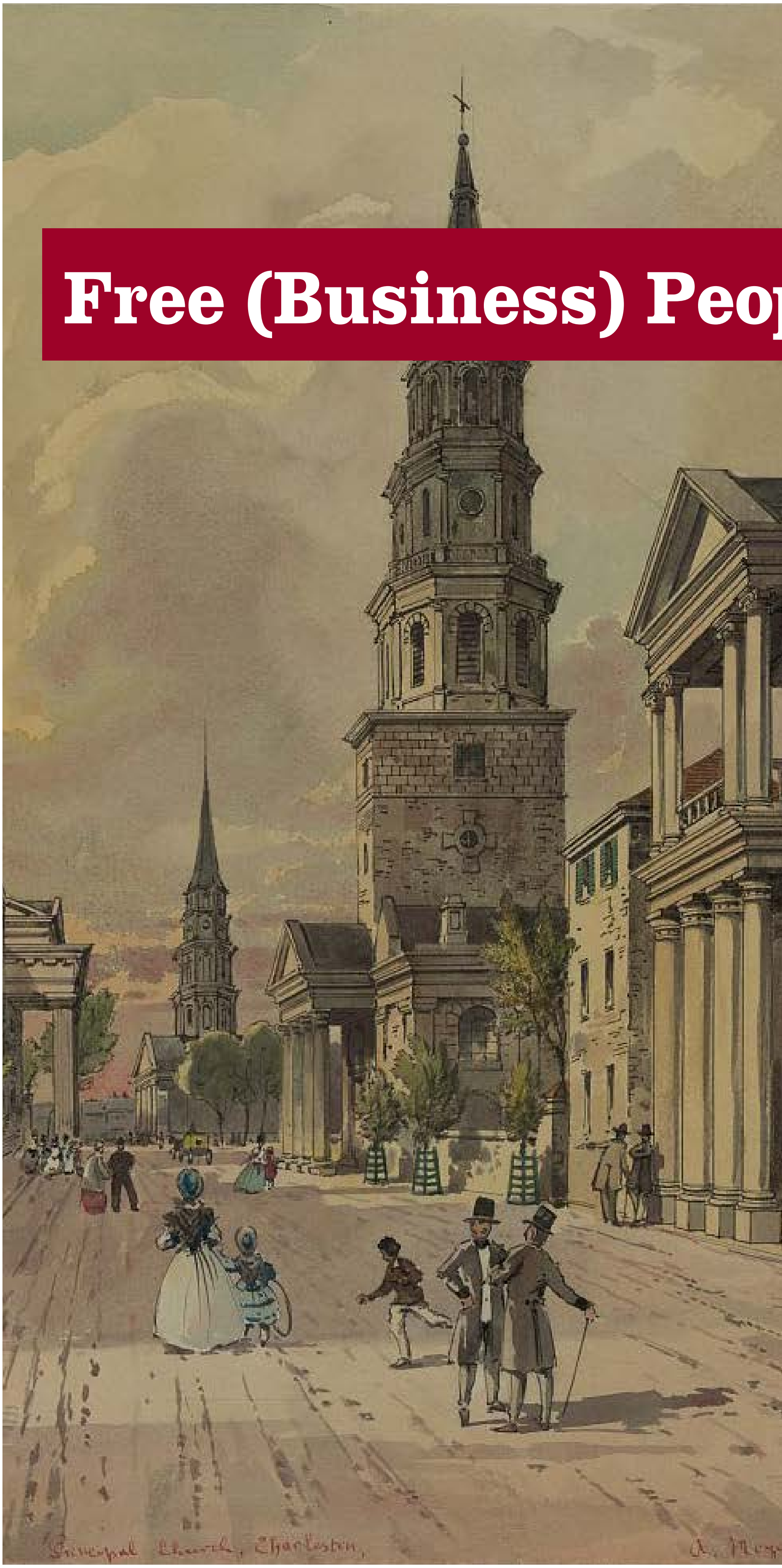
Free (Business) People of Color



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Antebellum Black Business Owners in New Orleans and Charleston

By Ramon Vasconcellos

As rioters paraded through the streets of New Orleans in July 1900, looking for any Black whom they deemed eligible for retribution in the deaths of four white police officers, they came upon "The Thomy Lafon School." Considered the best school for "Negroes" in Louisiana at the time, the mob, out of disdain for anything representing progress for "colored citizens," let alone named after any distinguished Black (Lafon), set fire to the institution. The building had been erected just two years prior and was named in honor of one of the city's most prominent Blacks, Thomy Lafon, a businessman and philanthropist during the Antebellum and postwar eras. Furthermore, Lafon donated a substantial portion of his wealth for civic improvements before and after his death in 1893 and is believed to be the United States' first Black millionaire.

Similar philanthropic endeavors were engaged in by the "Brown Fellowship Society" throughout South Carolina, a group composed of free African American males for the purpose of assisting orphans

Broad Street in Charleston, South Carolina, showing St. Michael's Church, 1861. The Antebellum period witnessed substantial business ownership by "Free People of Color"—or FPCs—in Charleston.

and widows, and establishing school endowments. Founded in 1790 in Charleston, its membership consisted solely of mulattos representing the elite of the city's free African American population. Voicing the importance of the organization's purpose and supporting its stipulation that members were selected according to their biracial ancestry, an affiliate stated in 1848, "[such organizations] add bone and sinew to our strength as a people."

Many of Brown's associates consisted of skilled professionals and, like Lafon of New Orleans, businessmen of substantial wealth who, unlike most African Americans at the time, represented an elite subclass of citizens within the free Black community. Moreover, the Society continued serving the needs of the Black community after 1865 and well into the 20th century.

Lafon and the Brown Fellowship shared a unique cultural pedigree common amongst Blacks in several cities and regions throughout the South: their mixed ancestry and economic stature. Most descended from either a mixed-race background or from the union of a white father and a slave or free mother. Depending upon state laws and proscriptions, Louisiana being the most progressive, the biracial offspring could be freed (manumitted) and sometimes received an education, inherited property (inclusive of slaves) and learned occupational trades essential to local economies. Many residing in cities along the south Atlantic and Gulf coasts established small businesses despite systemic prejudice against their color. Consequently, the Antebellum period witnessed substantial business ownership by "Free People of Color"—or FPCs—in Charleston and New Orleans.

New Orleans' free Black business community took root in the early 18th century. French settlers, predominately male, engaged in liaisons with Native American and Black women, the latter of whom were slaves. Such interactions were quite common, with any resulting children taking on the status of the mother, either slave or free. Yet, in accordance with French custom, many fathers recognized their offspring and, as records substantiate, freed them at birth. As a result, by mid-century, bequests of personal property, education and land were inherited by a burgeoning mulatto class. The colonial government as well adopted a very liberal attitude toward manumission that encouraged freedom for mistresses and children.

Spanish custom, though dissimilar in some respects, mostly adhered to the French model. After the acquisition of the Louisiana colony in 1763 as a concession of the Seven Year's War, Spanish colonial administration permitted continued manumissions and accepted the social convention for property distribution between the races. The Spanish also employed the practice of "coartacion" (self purchase) contingent upon a master's consent. Any savings accrued from labor outside of a slave's regular duties might be used to purchase his or her freedom sometime in the future.

Under Spain, free Blacks began to realize a significant degree of economic autonomy. As historian Laura Foner concluded, during the Spanish period, free Blacks "were guaranteed equal property rights and full rights to make contracts and engage in all business transactions." Prejudice would eclipse economics to some degree, however, as free people were relegated to occupations in the personal service trades only: barbers, tailors and seamstresses, for example. Although a few could distinguish themselves as "white collar" type entrepreneurs before and after the Civil War, financial services and the legal professions were the exclusive domain of white males.

With slaves occupying the lowest economic tier under colonial (and American) administrations and whites controlling the professions, FPCs had no choice but to exploit and develop niche markets for their survival. Consequently, these *"gens de coluer libre"* (free people of color) found themselves occupying a necessary economic middle ground between white society and slaves; however, regardless of their indispensability, they could never be socially equal with whites.

Census data from Spanish Louisiana in 1795 purports that New Orleans' FPCs held positions as cabinet makers, tailors, seamstresses, launderers and retailers. One observer noted during a visit to the city in the first decade of the 19th century that "[FPCs] are busied some in the mechanical arts for which they have great aptitude." He further recognized the presence of those engaged in the "retail trade" and the significant number of grocers throughout the city.

Some even held more atypical positions. Santiago Derom, a doctor, acquired his talent for medicine from his master, also a doctor, through coartacion in 1783. Considered a "distinguished" member of the city "with a large practice among the races," Derom healed throat ailments. Records indicate that under the Louisiana Purchase in 1803, he became the first licensed African American physician in the United States.

The American era, which commenced with President Thomas Jefferson's Louisiana Purchase, would gradually adopt a new, less inclusive attitude toward New Orleans' FPCs. At the same time, global political events like the successful slave revolt on the island of St. Domingue (Haiti) in 1803 and the Cuban immigration of 1809 increased the population of New Orleans significantly. Both migrations consisted of large numbers of whites and free Blacks, in the case of the latter, the number of free Blacks increased from 2,312 in 1806 to 5,727 by 1810.

For the most part, Americans governing their newly acquired territory found the liberalized attitudes toward race by their Spanish and French predecessors disconcerting. The recent influx of Caribbean migrants only stiffened the resolve of local politicians hoping to limit the presence of Blacks. As a result, the state legislature passed a resolution in 1806 prohibiting the entrance of free Blacks from other states nor could they possess firearms without legal permission. At its worst, free Blacks could not even insult or strike a white citizen without fear of legal reprisal.

Though despite newly created laws prohibiting certain freedoms and curbs on their migrations, the FPC population of Louisiana continued its ascendancy, particularly in New Orleans. The US census of 1830 recorded 16,710 FPCs in Louisiana, 11,906 of which resided in New Orleans. By 1840, 25,502 lived in the state and 75% were New Orleans residents. Nevertheless, their numbers generally represented no more than 10% of the Southern Black population in part due to state prohibitions across the South that, during the 1830s, restricted owners from freeing their slaves.

In the wake of the ill-fated Nat Turner rebellion in Southampton County, Virginia, in 1831, many Southern states passed

laws (though often not enforced) further regulating the lives of slaves and free Blacks. Consequently, Louisiana legislatures followed suit either proposing or adopting legislation restricting the livelihood of FPCs. By 1859, FPCs could not own establishments that might sell liquor such as coffee houses, billiard halls or retail establishments. As for slaves, with manumission restrictions becoming more prevalent, particularly on the eve of the Civil War, the transition from bondsperson to free became less probable.

Yet, regardless of their tenuous social position, the free Blacks of New Orleans prospered. A vibrant, urban community of white male businessmen often sought the latest in European fashion, and free Black tailors would service their needs almost exclusively. One contemporary noted that FPC "tailors...they were almost exclusively patronized by the elite" and from their expertise "acquired individually fortunes of several thousands of dollars."

Etienne Cordeviolle and Francois LaCroix, both tailors, established a retail clothier business in 1817. By 1853, they had become, as advertised in a city directory at the time, purveyors of "French cloth, fancy cashmere...and clothing made in Paris." In fact, according to one 19th century historian, American tailors admired Cordeviolle's work so much so they sometimes copied his designs. The partners also invested in commercial real estate starting in the 1830s; by the 1850s, they owned complete city blocks.

Another tailoring partnership in competition with Cordeviolle and LaCroix—Julian Clovis and Joseph Dumas—operated both in New Orleans and Paris. They, too, are said to have acquired significant holdings of commercial real estate. Brothers Phillipe Aime and Erasme Legoaster would follow a similar path purchasing large estates from the proceeds of their tailoring establishment; Phillipe became the wealthiest FPC in the city by 1850 with taxable property of $150,000. Revenues from "D. Mercier & Sons Emporium of Fashion and Fair Dealings" allowed the proprietor, Dominique Mercier, to eventually become a plantation owner. His sons, too, due to the net income of the Emporium, enhanced their wealth as successful realtors in the city by the end of the 19th century.

Free women of color also proved notable to New Orleans' fashion industry. Nineteenth century Louisiana historian Charles Gayarre observed how they "shaped the dresses of the elegantes of the white race." Gayarre estimated that many of these designers garnered profit margins as high as two-thirds of sales because they, like many whites, owned slaves. He said the slave women employed by these dressmakers were, "A source of revenue to their mistresses."

Small markets, grocery stores and vending operations were often owned by free women. An 1838 city directory listed Caroline Duminy, Elizabeth Fay (or Foy) and A.C. Pellebon as grocers; Jane Williams operated a confectionary. In the early 1800s, Rose Nicaud is said to have made coffee that served "like the benediction that follows after a prayer" from her stand located just outside of the city's famous extant building, St. Louis Cathedral.

As mentioned, financial services in New Orleans were both owned and staffed by whites. Commission merchants, those who held title and marketed commodities like sugar and cotton, and exchange brokers that bought durable goods for resale, were operated by whites as well. Nevertheless, the historical record evidences several FPCs, including women, scratched the glass ceiling in financial services and participated in merchant exchange businesses.

Given the plethora of bank notes in circulation prior to the Civil War, merchants and other non-bank small businesses sometimes engaged in the "discounting" of these notes prior to their redemption. The discounting agent would offer the note holder a percentage of the value based on interest rates at the time and risk of non-repayment of the note in specie (gold or silver coin). According to *R.G. Dun Mercantile Credit Reports, Louisiana*, from 1854, brothers Bernard and Albin Soulie (FPCs), engaged in money brokerage services "doing a large" discount business. The report added that both served as "private bankers...estimated worth between 300(k) to 500(k)" and had a credit rating that was "1st rate."

Drosin Barthelemy McCarthy, related by marriage to the Soulies, operated a dry goods business and functioned as a commission broker in 1848. Six years later, he retired from selling dry goods, and by 1859 had a desk with "B & A Soulie" as a broker; by that time the Soulie brothers were commission brokers. Cecee Macarty (no relation to McCarthy), a female with "unlimited credit," is said to have had an export and, at times, a discounting business. When she died in 1845, her commission business had been appraised at $150,000, a considerable sum for any female (or male) entrepreneur at the time.

The aforementioned businessman and philanthropist, Thomy Lafon, had a commission business too during the 1850s, proceeds of which helped propel him into owing a seat on the city's stock exchange. Upon his death in 1893, Lafon had an estimated net worth of $400,000; even more so than Macarty, a substantial estate for any business owner, North or South, of any race.

Regardless of wealth accumulation, however, societal prejudice could impede how FPCs invested savings acquired from their businesses. For example, the Citizens Bank of Louisiana amended its charter in 1836 limiting ownership of its capital stock to whites. Requiring that "no person who is not a free white citizen…shall be directly or indirectly owner of any part of the Capital stock of said company" resulted in the forfeiture of shares owned by free Blacks.

Francois Boisdore and Jean Goule, a local building contractor and tin smith, respectively, having a total of $35,000 invested, sued. A lower court and the state supreme court ruled in favor of the plaintiffs. The Louisiana Supreme Court found that the bank's board of directors had no sufficient ground to amend their charter and that by using collateral pledged by the plaintiffs, then removing them, violated the plaintiff's rights. As time progressed, New Orleans' free Black community would not just have their economic livelihood disrupted, but the right to remain within the state, regardless of financial status, eventually came into question.

Most of the first Blacks to arrive at Charleston, South Carolina, came as indentured servants during the late 17th and early 18th centuries. Upon termination of their contracts, they became free; West Indian freed Blacks from Barbados (a source of Charleston's white population too) also supplemented a growing community of settlers. At the time, liberalized attitudes in the colony regarding intermarriage allowed for biracial unions, often resulting in children. Furthermore, the sentiment toward emancipation, prevalent throughout the states after the

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Illustration of the port of New Orleans, circa 1842. Many free Blacks in New Orleans, regardless of their tenuous social position, prospered in the mid-19th century.

Revolution, motivated many South Carolina slaveholders to free their slaves. As to their numbers, 586 free people resided in Charleston according to the 1790 census, which represented 4% of its population.

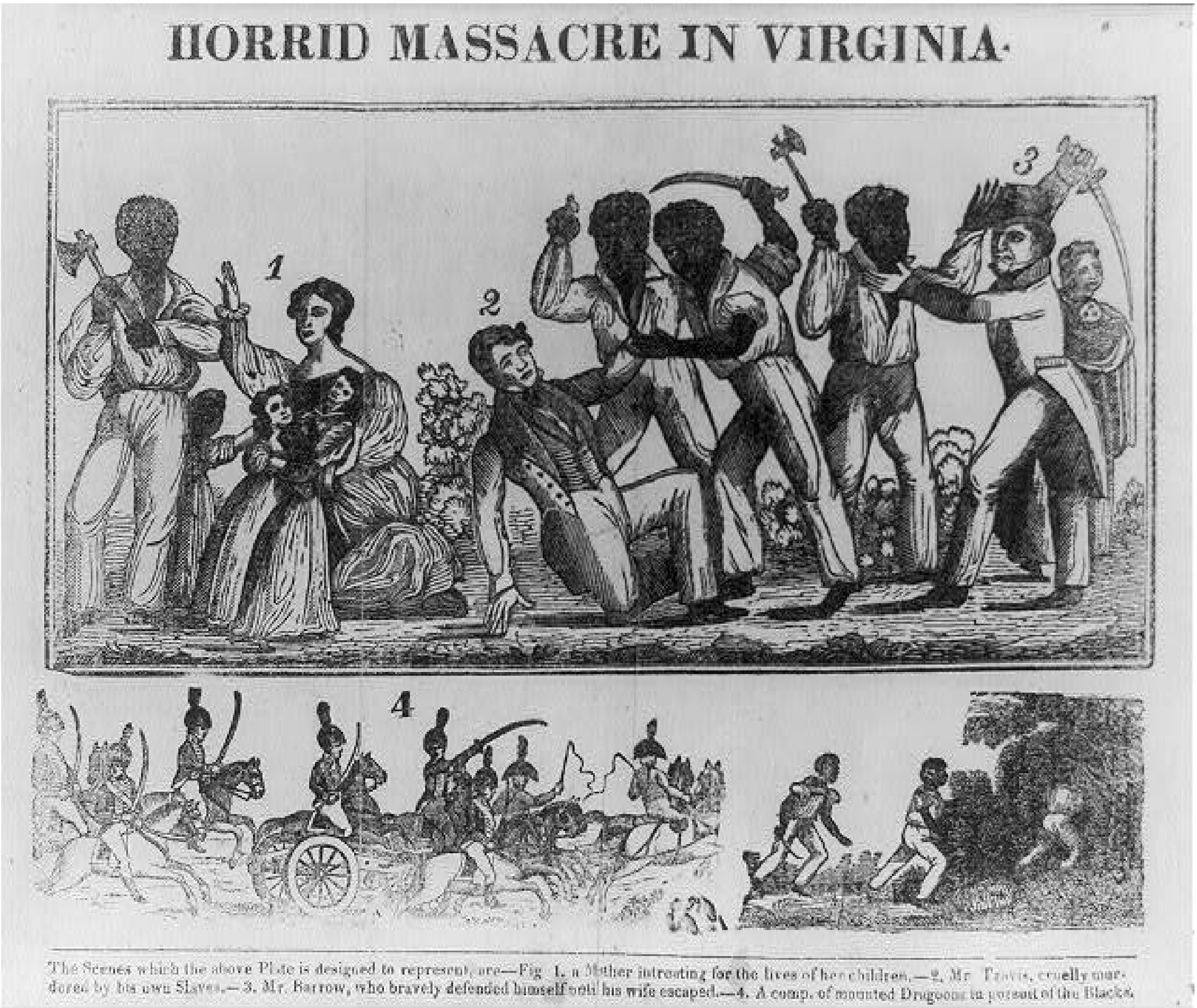
Though only 6% of Charleston's demographic by 1810, their increasing numbers and the incessant migration of more freed Blacks to the city, because of restrictions placed on the liberties of freed people in other states, alarmed some whites. Governor Geddes felt that continued immigration could lead to a "disturbance in our domestic tranquility." As a result, in 1820, the state legislature passed a law prohibiting immigration and outlawing manumission. Those slaveholders still wishing to free their slaves would have to adopt more sophisticated, legally intricate estate planning devices in hopes of circumventing the 1820 law.

One universal approach adopted by many owners involved the establishment of a "trusteeship" with the creator of the trust acting as the beneficiary. The beneficiaries could then exercise emancipation rights whenever they chose. William Ellison, a free mulatto and cotton gin manufacturer with family in Charleston, "purchased" his daughter Maria in this manner in 1830. After technically purchasing her, he immediately vested her ownership in trust by "selling" her for "one cent" to Col. McCreight. The trust stipulated that though owned by McCreight, he was to allow her to reside with the Ellison family. Under the trust, William Ellison could emancipate at any time; upon his death, the agreement required that McCreight "secure her emancipation as soon as possible here or in another state."

Free Blacks seeking to directly confront the 1820 law without resorting to measures taken by Ellison and others often met with disappointment in the courts. Still, South Carolina, in hopes of closing the freedom loopholes inherent with trusteeship, passed "An Act to Prevent the Emancipation of Slaves" in 1841. Although passed, "evasions" occurred and trusteeship was not effectively curtailed; in practice, Blacks continued holding one another in trust until 1865.

Business ownership and working occupations of FPCs closely mirrored that of their counterparts in New Orleans. Brick masons, blacksmiths, butchers, carpenters and barbers were, like in New Orleans, personal service trades avoided by many whites. Females performed domestic services; skilled women worked in the needlecraft trades. Some, like William Ellison, though not a citizen of Charleston, manufactured cotton gins and sold them throughout the state and as far as Mississippi.

Before purchasing himself at 26, Ellison apprenticed as a cotton gin manufacturer. Once freed, he purchased land and slaves for the purposes of manufacturing and retailing gins. Records from 1849 support that he sold 15 gins with his



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Depiction of Turner's Rebellion in Southampton County, Virginia, 1831. In the wake of that event, many Southern states passed laws regulating the lives of both slaves and free Blacks. By 1859, free people of color could not own establishments that sold liquor, such as coffee houses, billiard halls or retail establishments.

blacksmith enterprise realizing $1,500 in sales. No information is available regarding his competitors of either race, but his personal and realty holdings identified in 1860 indicate he was one of the wealthiest FPCs in South Carolina.

Richard Holloway of Charleston, in addition to his carpentry business, had a rather unique sideline; he trained slaves in his craft for their master's benefit, and one even stayed with him for four years beginning in 1829. Free Black craftsmen also trained their families, thereby allowing their businesses to exist as "going concerns," which could sustain future generations. Holloway and his family not only practiced carpentry, but also manufactured harnesses; the Ingliss' would supply a family of barbers to Charleston; the Ellisons of Stateburg, South Carolina, were cotton gin manufactures up to the Civil War. Richard and Joseph Dereef, wood merchants and factors (lenders), with Richard considered one of the wealthiest FPCs in Charleston, were considered "men of great business habits" and highly influential.

Free Charlestonians serviced the hospitality industry, too. Eliza Lee, owner of the Mansion Hotel located on Broad Street, hosted the elite of the city. Apparently, it had a reputation for superb cooking and good management. The "Antique and Mixed" architecture of Jehu Jones' "Jones Hotel," coupled with its convex windows, is said to have been situated on prime real estate being located (also) on Broad Street next to the famous extant St. Michael's Church. Established in the early 19th century, the hotel, like Lee's, attracted the elite given it "was unquestionably the best in the city." Visitors could expect to find "the comforts of a private house" along with a "table spread with every luxury the country could afford."

The concept of insurance and how risk management associations would serve the needs of African Americans into the

20th century was, in part, practiced by The Brown Fellowship Society. Fraternal organizations established in the early 19th century composed of white employees like firemen, brick masons and other skilled laborers were precursors to modern day life insurance companies regarding the benefits of membership. Similarly, the Browns would pay beneficiaries annuity stipends and absorb the burial costs of its members; in essence, acting as *de facto* insurers.

Under its motto of "Charity and Benevolence," members could claim sickness benefits of $1.50 per week, have a "horse, hearse and [pallbearers] for a cost of four dollars," and would make relief payments to indigent Black non-members. In hopes of abiding social norms in order to maintain their presence as an integral body to Charleston's freed Blacks without invoking the ire of whites, the Browns prohibited discussions concerning religion or politics at its meetings.

The Humane Brotherhood, also of Charleston and organized in 1791, accepted "free dark men" who were excluded by the Browns. It, too, acted similarly for its membership regarding burial and annuity type benefits. Unlike the Browns, however, membership consisted of carpenters and tradesmen, not mulatto businessmen operating large-scale enterprises.

Alluded to earlier, like many whites, some FPCs also owned slaves. The dichotomy of Blacks, whether mixed blood, mulatto or of direct African ancestry, owning those of their ethnicity has given rise to the questions of "why" and "how" they were treated. The "why"—excluding the morality of slavery—is, to some extent, attributable to the scarcity of "free labor" available in the American South. The fact that personal service trades might have required a labor force necessary to the scale of the operation, to some extent explains the demand for slaves.

Historians examining the "how" have drawn dissimilar conclusions. The late African American historian and co-founder of Black History Month, Dr. Carter G. Woodson, surmised that Blacks held one another for the purposes of buying a loved one out of slavery. To some extent, this adheres with the practice of trusteeship employed (and discussed) by several Black families in South Carolina. Recent scholarship examining whether these Black masters were "Benevolent or Exploitative" has somewhat refuted Woodson's thesis.

For instance, William Ellison (South Carolina) is rumored to have treated at least some of his 63 slaves harshly, and records indicate he freed none. Sarah Johnson, a Charleston seamstress, advertised for the return of her runaway slave in 1839. Apparently, even less arduous tasks were not enough to keep slaves from desiring their freedom. October 1857 editions of the *New Orleans Daily Picayune* and *Daily Crescent* described how a "recently freed" slave named Kate Parker had been charged for "nearly beating her slave to death with a cowhide."

Andrew Durnford, a sugarcane planter residing in Plaquemines Parish outside of New Orleans, remarked how when he recaptured his runaway slaved named Jackson, he would "fix him so the dogs would not bark at him." When Jackson successfully escaped a few months later, Durnford, seemingly not very inclined as to his whereabouts or rationale for escape, commented, "He had the audacity to go away with all the irons I had put on him." It seems the complexities behind the treatment of bondspersons, irrespective of the owners' color, may have something to do with the enigmatic, historical inclination of humans toward cruelty.

Several years after the race riot which engulfed New Orleans in July of 1900, benefactors rebuilt the Thomy Lafon School at a different location; the last of the Lafon schools would be demolished in the wake of Hurricane Katrina. The Brown Fellowship Society survived until 1945, but by that time it had changed its name to the Century Fellowship Society. Until its conclusion, Century continued its philanthropic activities toward Charleston's African Americans.

Black business leaders in New Orleans sustained their commitment to free enterprise, receiving nationwide recognition in the mid-20th century. *Fortune* spotlighted several prominent members of this exclusive group in a November 1949 article entitled "Negro Businessmen of New Orleans." Noting that all observed were large-scale businesses with a predominately white clientele, the publication made several observations for their continued success. According to the writer, "education, capital and a sense of community amongst 'Negroes' (Blacks)" would allow for greater participation in the American economy. These principles are indispensable to the success of all people, regardless of skin color. $

Ramon Vasconcellos is a history professor and lecturer in Accounting and Economics at Barstow Community College in Barstow, CA. He has published numerous biographical and topical articles on the history of the West, particularly related to finance. Ramon has also taught Economics and History at the University of London.

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JPMorgan's Transformation

Past, Present and Future

By Nicholas P. Sargen

Over the past four decades, the US banking system has undergone a radical change from being highly regulated and decentralized to becoming heavily concentrated with six institutions today accounting for 60% of all assets. This transformation stemmed from efforts to liberalize the financial system by removing barriers on interstate banking and Glass-Steagall legislation that separated commercial and investment banks. It occurred amid a wave of consolidation that shrunk the number of US banks from 14,500 in 1980 to less than 5,000 today, with JPMorgan Chase emerging as the largest US institution.

Exterior view of the offices of JP Morgan and Company, located on the southeast corner of Wall and Broad Streets, circa 1900.

What happened to the House of Morgan is truly unique in the annals of financial history. Morgan went from being a premier wholesale bank to being acquired in the fall of 2000 by Chase, a retail-oriented bank which itself had been acquired by Chemical Bank in 1996. JPMorgan Chase has since evolved under Jamie Dimon into a financial powerhouse that combines wholesale and retail banking along with investment banking.

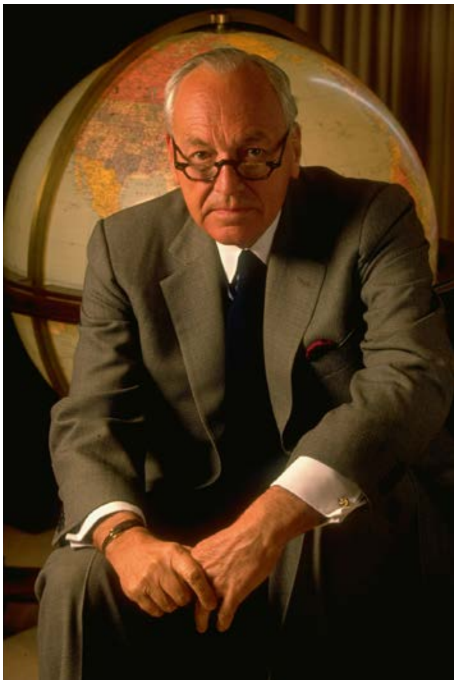
Morgan's story is important because of its rich history and its mystique as the pillar of the US financial system before the Federal Reserve was created. What makes Morgan different is that it is the only money center bank that tried to build investment banking and securities capabilities entirely on its own.

The origins of Morgan's transformation date back to Lew Preston's tenure as chairman and CEO in the 1980s. He inherited an institution that was respected by competitors and regulators for its sound management, gilt-edged client base and culture of "doing business in a first-class way." Many observers at the time believed Morgan was a well-oiled machine that virtually ran itself. In addition to overseeing the firm, the informal responsibilities of Morgan's leaders included assisting the Federal Reserve and US government in stabilizing the financial system and coming to the rescue of firms and sovereign entities that became troubled.

Then, in the early 1980s, the unexpected happened when the Less Developed Country (LDC) Debt Crisis hit. Preston and his trusted confidant Dennis Weatherstone, who would succeed him in 1990, were caught completely off guard, as they realized Morgan's loans to troubled borrowers such as Mexico, Brazil and Argentina matched the bank's capital. For the first time in its history, the Morgan franchise was in jeopardy.

True to Morgan's legacy, Preston and Weatherstone swung into action, bolstering the bank's balance sheet while backstopping the financial system. Along with Alfred Herrhausen, chairman of Deutsche Bank, they formulated a strategy of "managed lending" to keep the multinational banks and their borrowers afloat. The essence of the strategy was that participating banks, large and small, would lend the interest that the debtor countries owed them so the loans would be considered current by regulatory bodies. The motto was "a rolling loan gathers no loss."

Morgan emerged from the crisis in better shape than rival banks. However, Preston realized that its business model of lending to sovereign borrowers and multinational corporations would have to change for it to stay competitive. While some members of the "old guard" resisted, Preston concluded that Morgan could no longer rely on lending as its principal revenue source when Continental Illinois had to be rescued in 1984 for making a series of bad loans to energy producers. It had become the largest US lender and earned the moniker "The Morgan of the Midwest."



Cynthia Johnson

Lew Preston, chairman and CEO of JPMorgan in the 1980s.

Dennis Weatherstone succeeded Preston as chairman and CEO of JPMorgan in 1990.

Preston's goal was to turn Morgan into a "universal bank" that could offer both wholesale banking and investment banking services. However, he had to navigate around regulatory barriers until Glass-Steagall restrictions were relaxed. Meanwhile, Morgan Guaranty Limited (MGL) in London was used as the launch pad for the bank's forays into securities and investment banking.

The decision to build rather than to buy capabilities in these areas was a formidable undertaking. First, it meant that bankers who were adept at assessing credit risk would now have to become trained to become equally astute at understanding how capital markets functioned. This was a tall order for seasoned bankers. Second, it was questionable how well bankers and traders would interact and whether Morgan's ethos of team spirit could be maintained. Third, compensation for investment bankers was considerably higher than for commercial bankers, and outside hires commanded a premium to existing employees, causing some friction between the two groups.

Nonetheless, Preston was determined to move forward while preserving Morgan's culture. He was equally adamant that Morgan should not enter retail banking. Therefore, when Gerald Corrigan of the New York Federal Reserve presented an opportunity to acquire a 10% stake in Citibank in 1990, both Preston and Weatherstone rejected it.

The pair also passed on several opportunities to expand Morgan's expertise in asset and wealth management and global custody, which would have enabled the firm to capitalize on the boom in wealth creation during the 1990s. Instead, Morgan became increasingly dependent on volatile trading revenues, which left it vulnerable.

The enigma is how Preston could be so decisive in handling crises and yet be very indecisive—almost Hamlet-like—when making strategic decisions. According to one high-ranking Morgan executive, the LDC debt crisis changed his leadership style and demeanor. Previously, Preston was tough and self-assured. During his rise to the top he swept competitors aside while pursuing a dual strategy of international expansion and an end to restrictions imposed by the Glass-Steagall Act. After the LDC debt crisis, however, he turned cautious and less decisive about the path Morgan should pursue.

Simply stated, the thesis is that Preston never recovered his panache after Latin America. Worried that somehow he might dishonor the mantle he had inherited from the 20th century's most storied franchise, he deliberated long and delayed taking strategic decisions until opportunities to acquire businesses had elapsed.

One challenge in assessing this hypothesis is that Preston and most of his colleagues are no longer alive to confirm or reject it. Also, as a Marine and member of the "Finest Generation," Preston was "painfully reticent" speaking about his accomplishments.

Looking back on his tenure as Morgan's leader, Preston is widely recognized for successfully navigating the bank during the tumultuous 1980s and for laying the foundation for its transformation into investment banking and the world of securities. During his tenure, Morgan far surpassed all of its rivals in profitability and share price performance, and it was the only US bank to retain a coveted AAA rating. In Sebastian Mallaby's words, "Morgan was the country's pre-eminent bank, and Lew Preston was the country's pre-eminent commercial banker."

Still, while this was the legacy that Preston passed on to his successors, only time would tell whether his strategy of expanding into the world of securities *de novo* would leave Morgan well positioned for the future.

When Sandy Warner became CEO in 1995, the tables had turned, and Morgan went from being the hunter to the hunted. Rival banks that had been burdened by bad loans to developing countries and commercial real estate capitalized on rising

HENNY RAY ABRAMS / Stringer

Sandy Warner, chairman and CEO of JPMorgan, shakes hands with William Harrison Jr., chairman and CEO of Chase, after an analysts' meeting where the merger of their two companies was discussed, September 13, 2000.

share prices during the tech boom and wave of LBOs to acquire other institutions. Meanwhile, Morgan's profits and share price lagged, which left it vulnerable. Senior management unveiled a plan to enter the mass affluent market at a Managing Directors' (MD) gathering in January 2000, but it proved to be "too little, too late."

Following Chase's purchase of Morgan in September 2000, some were quick to blame Warner for profiting from the sale. However, what has not been revealed previously is he was approached by Chase two years earlier. He rejected the offer to become head of the combined entity then because he did not believe it would be favorable for Morgan's shareholders.

What ensued after the merger was not pretty. Employees from both Morgan and Chase were unhappy. Many officers from Morgan felt the firm had been sold to a less prestigious institution and one that was much larger and more bureaucratic. For their part, Chase employees were upset that Chase's share price fell by 9% after the merger was announced. Also, many felt that their new colleagues from Morgan were arrogant and treated them in a condescending way.

For Bill Harrison, who became CEO of the merged entity, this was a much different experience than Chemical Bank's mergers with Manufacturers Hanover and Chase Manhattan, both of which went smoothly. Moreover, the problems of integration with Morgan were further compounded by the appointment of co-heads for various business units. This often meant they were pre-occupied with who would eventually get the nod, rather than on how to build their businesses and maintain employee morale.

When Jamie Dimon came on board in mid-2004, Morgan had a leader who could run a financial services conglomerate effectively. One of Dimon's crowning accomplishments is his ability to combine both wholesale and retail banking with investment banking, while also overseeing 255,000 employees worldwide.

The time Dimon spent with Sandy Weill acquiring businesses and integrating them left him well suited to take on an institution as complex as JPMorgan Chase. It is the combination of six large institutions, which themselves were the product of previous mergers. Consequently, he did not agonize over a culture clash as his Morgan predecessors did.

One of the keys to Dimon's success is his ability to combine a strategic vision of global finance with detailed knowledge of each of JPMorgan Chase's six main business lines. He is also adept at the so-called "plumbing" of banking that includes technology and operations, and he has a strong grasp of management information systems to assess performance of individual business lines.

A former Morgan executive contends that Dimon is the first Morgan leader who is both a business manager and a keen observer of financial services. When he became CEO in mid-2005, Dimon spelled out his vision in the company's 2005 Annual Report. He began by asking whether JPMorgan Chase was in the right businesses, and he proceeded to assess various risks the firm faced. He wrote: "A company that properly manages itself in bad times is often the winner. For us, sustaining our strength is a strategic imperative. If we are strong during tough times—when others are weak—then opportunities can be limitless."

This assessment would prove prescient when the collapse of Lehman Brothers sent shock waves throughout the global financial system in September of 2008. Leading up to the crisis, Dimon had maintained a "fortress balance" sheet, and the bank had previously taken steps to lower risks. Consequently, while it sustained a loss in investment banking and took hits to earnings in retail and card services, it was much better positioned overall than other leading financial institutions. JPMorgan Chase, in turn, attracted considerable assets of individuals and corporations who sought a safe haven refuge.

The bottom line is that Dimon deserves credit for reviving Morgan's legacy: He pulled off what his predecessors were unable to achieve and built on the foundation that had been laid, while integrating diverse cultures into a cohesive whole.

The story of what happened to Morgan is important because it is also emblematic of the consolidation of the US financial system over the past 40 years. The fact that Morgan was acquired is not noteworthy by itself; the same can be said of most of its rivals. At the beginning of the 1980s, for example, there were 10 US money-center banks. Twenty years later, only three names were left—JPMorgan Chase, Bank of America and Citicorp—and each of them was the product of mergers. A fourth name was later added to the list, Wells Fargo, which also expanded as a result of mega-mergers.

By the early 2000s, the top four banks accounted for about one third of total banking sector assets. Moreover, that tally would rise above 50% during and

immediately after the 2008 Financial Crisis, when regulators encouraged JPMorgan Chase and Bank of America to acquire institutions that were financially troubled.

In the wake of the financial crisis, the main issue that has arisen in the public arena is whether bank consolidation has affected the safety and soundness of the US financial system, and what can be done to protect it. Today, JPMorgan Chase heads the roster of US financial institutions in terms of asset size and market capitalization (*See Table 1*). It is also the most profitable bank, and its share price has exceeded that of other large banks substantially since the onset of the GFC. In this respect, it serves as an example that "being big is not necessarily bad."

One blemish on Morgan's record is the $34.5 billion in violations it has paid since it was acquired in 2000. It has plenty of company in this regard: The tally for the six largest financial institutions over the past two decades stands at $180 billion (*See Table 2*). This has caused critics to argue that, even if they are financially sound today, the largest institutions have become "Too Big to Manage."

Because of JPM's stellar performance, Dimon has maintained the confidence of Morgan's board and its shareholders. He successfully resisted an attempt by some to separate the roles of chairman and CEO in a vote taken in 2013 following large trading losses the bank incurred in London.

The big unknown is what will happen once Dimon steps down as CEO. Investors believe he is well ensconced as Morgan's leader, but there is also a possibility he could become the next US Treasury Secretary. If so, Dimon's appointment would fulfill the customary role Morgan's leaders played as advisors to the US government, and he would be called on to opine on legislation impacting US banks.

As for the future of JPMorgan Chase, Dimon's successors will face the daunting challenge of managing an institution that is extraordinarily complex. Moreover, new challenges lie ahead including the risk of cybersecurity, which Dimon has called the biggest threat in the financial services industry, as well as the rise of "fintech" that seeks to displace traditional banking models through the application of financial technology.

Based on how Morgan has performed throughout its storied history, the underpinnings of the firm—talented management and people, fortress balance sheet and sophisticated risk management—are sound. They will likely keep it at or near the top of global financial institutions for years to come. This achievement would extend the legacy of J.P. Morgan. The caveat is that the current institution is vastly different from the one he founded and which Lew Preston envisioned as he embarked on transforming the firm. $

TABLE 1. Assets and Market Capitalization of 10 Largest US Bank Holding Companies, December 31, 2019

Rank	Bank Name	Total Assets (billions of $)	Market Capitalization (billions of $)	Branches
1	JPM-Chase	$2,687	$426	5,000
2	BoA	2,434	300	4,300
3	Citigroup	1,951	161	2,400
4	Wells Fargo	1,928	97	5,500
5	Goldman Sachs	993	83	0
6	Morgan Stanley	895	85	0
7	U.S. Bancorp	495	83	3,000
8	PNC	410	67	2,300
9	TD Bank N.A.	394	67	1,200
10	Capital One	379	58	750

Source: Federal Reserve, ADVs

TABLE 2. Violations of Six Leading US Financial Institutions Since 2000 (Billions of dollars)

Firm	Total Violations: Number	Total Violations: Volume	Mortgage / Toxic Securities
Bank of America	182	$82.6	$63.2
JP Morgan Chase	135	34.5	18.8
Citigroup	97	25.0	15.5
Wells Fargo	136	17.3	9.3
Goldman Sachs	37	13.1	9.2
Morgan Stanley	79	9.7	5.4

Source: Good Jobs First, Violation Tracker

Nicholas P. Sargen is an international economist turned global money manager who has written extensively on international financial markets. He worked on Wall Street for 25 years, holding senior positions with Morgan Guaranty Trust, Salomon Brothers Inc. and JP Morgan Private Bank.

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This article was adapted from *JPMorgan's Fall and Revival: How the Wave of Consolidation Changed America's Premier* Bank (Palgrave Macmillan, 2020).

Library of Congress

Federal Land Grants in the 19th Century

By Michael A. Martorelli

Throughout the 19th century, United States government officials believed making meaningful quantities of free land available to a variety of private parties would hasten the country's economic development. Gaining such an asset would enable citizens and businesses alike to establish their permanent presence, first in the territory on the western side of the Appalachian Mountains, then later across the vast plains of the Midwest and West. Of course, it needs to be acknowledged that thousands of Native American inhabitants of North America did not recognize the right of any government to acquire, sell or give away the lands they had been living on for centuries. Accepting that reality does not change two facts: 1) the US government acquired almost 1.5 billion acres of land from 1781 to 1853, and 2) during the 19th century, it granted almost 40% of its public domain lands to the individual states, as well as homesteaders, universities, veterans, loggers, miners and developers of wagon roads, canals, railroads and river improvements.

"American Progress," by George A. Crofutt, circa 1873. The print shows an allegorical female figure of America leading pioneers westward, as they travel on foot, in a stagecoach, by conestoga wagon and by railroads, where they encounter Native Americans and herds of bison.

Land Grants for Veterans

The Continental Congress passed the first land grant law in 1776. It gave soldiers or their heirs different sized tracts of land as partial payment for their military service. The size of the grants ranged from 100 acres for privates and non-commissioned officers to 1,100 acres for major generals. Over the succeeding decades, Congress extended the provision for land bounties to veterans of the War of 1812 and the Mexican War, as well as those who participated in various Indian wars from 1778 to 1855.

The recipient had the choice of obtaining either the land set aside for that purpose or a warrant he could sell or transfer to another party. By 1862, various offices within the Department of the Interior had processed more than 550,000 applications and granted more than 61 million acres of land to veterans or their heirs. At that time, Congress discontinued the policy of granting land to veterans. The Homestead Act passed in that year granted free land to any member of the general public who complied with certain conditions.

The Enabling Act

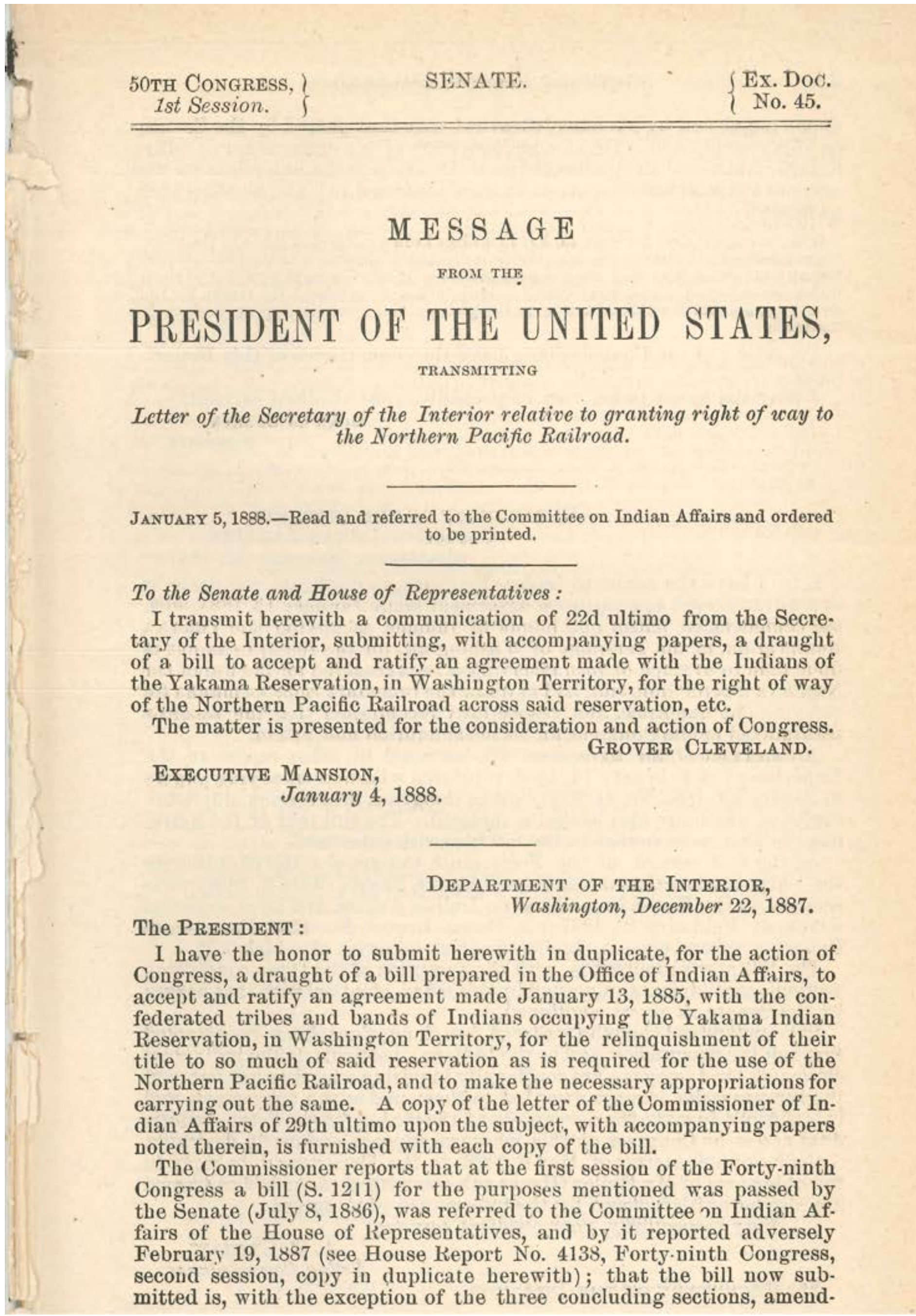
The Enabling Act of 1802 outlined the terms under which new states would be carved out of the public domain land in the country's incorporated territories. One provision of the law concerning the addition of Ohio to the country's rolls provided that 5% of the proceeds from the sale of public land within the new state would be allocated to its legislature for the construction of roads to and through that newest member of the Union. Throughout the 19th century, Congress revised and extended the law, changing the percentage of the proceeds to be given to a new state and broadening the authorized uses of the funds. By 1896, the government had granted more than 98 million acres of land to 25 states. They used that acreage for projects such as roads, canals and water reservoirs, and for building an array of public institutions such as non-sectarian schools, specialty hospitals, insane asylums and prisons.

Land Grants for Internal Improvements

As settlers began moving westward to the lands beyond the Appalachian Mountains, it did not take them long to recognize the need for improvements to the undeveloped assortment of roads and rivers that meandered throughout the countryside. The United States Constitution did not specifically authorize the federal government to finance or construct such improvements. But it did reinforce the aforementioned land-for-veterans policy by permitting Congress to dispose of public domain lands as it saw fit.

By 1822, legislators had come to recognize their ability to use the land grant precedent to satisfy their constituents' pleas for help in making much-needed improvements to the country's transportation infrastructure. Providing meaningful quantities of free land to the states and the companies building either a road connecting important towns or a canal connecting strategic bodies of water would certainly enhance the economic health of a region. Doing so would also enhance the value of the government lands adjoining the new transportation artery. The land grant would not be made in a contiguous block on both sides of the proposed road or canal, but in a series of checkerboard tracts on either side of the right-of-way. Using this tactic would enable the government to raise additional revenue by selling the alternate pieces of the checkerboard to private parties wanting to take advantage of their proximity to the new transportation artery.

Throughout the 1820s and 1830s, Congress focused its land grant largess on states and companies building internal improvements across Ohio, Indiana and Illinois. As the population continued moving westward in the 1840s, the legislature granted additional tracts of land to support similar transportation projects throughout the region that became Michigan, Wisconsin and Iowa. In the next decade, Congress used the land grant policy to help enhance the transportation network of the states carved out of the territory acquired after the Mexican War. So in the 40-year period from the early-1820s to the early-1860s, private parties made use of more than 4.6 million acres of land grants to build canals, 3.3 million acres to build hardpacked wagon roads and 2.2 million acres to make navigational improvements on rivers.



50TH CONGRESS, 1st Session. | SENATE. | Ex. Doc. No. 45.

MESSAGE

FROM THE

PRESIDENT OF THE UNITED STATES,

TRANSMITTING

Letter of the Secretary of the Interior relative to granting right of way to the Northern Pacific Railroad.

JANUARY 5, 1888.—Read and referred to the Committee on Indian Affairs and ordered to be printed.

To the Senate and House of Representatives:

I transmit herewith a communication of 22d ultimo from the Secretary of the Interior, submitting, with accompanying papers, a draught of a bill to accept and ratify an agreement made with the Indians of the Yakama Reservation, in Washington Territory, for the right of way of the Northern Pacific Railroad across said reservation, etc.

The matter is presented for the consideration and action of Congress.

GROVER CLEVELAND.

EXECUTIVE MANSION, *January* 4, 1888.

DEPARTMENT OF THE INTERIOR, *Washington, December* 22, 1887.

The PRESIDENT:

I have the honor to submit herewith in duplicate, for the action of Congress, a draught of a bill prepared in the Office of Indian Affairs, to accept and ratify an agreement made January 13, 1885, with the confederated tribes and bands of Indians occupying the Yakama Indian Reservation, in Washington Territory, for the relinquishment of their title to so much of said reservation as is required for the use of the Northern Pacific Railroad, and to make the necessary appropriations for carrying out the same. A copy of the letter of the Commissioner of Indian Affairs of 29th ultimo upon the subject, with accompanying papers noted therein, is furnished with each copy of the bill.

The Commissioner reports that at the first session of the Forty-ninth Congress a bill (S. 1211) for the purposes mentioned was passed by the Senate (July 8, 1886), was referred to the Committee on Indian Affairs of the House of Representatives, and by it reported adversely February 19, 1887 (see House Report No. 4138, Forty-ninth Congress, second session, copy in duplicate herewith); that the bill now submitted is, with the exception of the three concluding sections, amend-

Collection of the Museum of American Finance

Message from President Grover Cleveland transmitting a letter from the Secretary of the Interior regarding a land grant for the Northern Pacific Railroad, 1888. The formal era of railroad land grants began with the passage of The Land Grant Act of 1850.

Photograph of the Daniel Freeman Homestead in Gage County, Nebraska, 1904. This was the first homestead claim under the 1862 Homestead Act.

Even as states and private parties throughout the country were building roads and canals, they must have been aware of the new form of transportation that was emerging as early as 1830. In that year, the Baltimore and Ohio Railroad made its first trip of 13 miles from downtown Baltimore to the thriving mill town of Ellicott Mills (now Ellicott City), Maryland. The earliest example of a government land grant for a railroad occurred in 1833 when Congress gave the Illinois and Michigan Canal Company the right to use some of its land grant for a railroad instead of a canal—a right it chose not to exercise.

The formal era of railroad land grants began with the passage of The Land Grant Act of 1850. Congress granted the states of Illinois, Alabama and Mississippi a total of 3.75 million acres to be used by three separate railroad companies to construct more than 1,200 miles of track to connect Chicago, Illinois with Mobile, Alabama. The terms of the grants paralleled those of the canal grants. Each grant was made in alternate sections of land spanning specific distances on both sides of the right-of-way. The government planned to sell adjoining checkerboard sections at specified minimum prices. The railroads, like the canals, were required to transport mail and other government property at reduced rates. During the next seven years, Presidents Millard Fillmore and Franklin Pierce signed laws granting nine more Midwestern and Southern states another 28 million acres of land to support the construction of 40 railroad lines crisscrossing their territories.

President Abraham Lincoln, a former railroad lawyer, was a strong proponent of a transcontinental railroad route. In July 1862, he signed the Pacific Railroad Act. It created the Union Pacific Railroad and authorized that company to begin building a railroad westward from a yet-to-be-determined site on the Missouri River to the California/Nevada border. It further directed the already existing Central Pacific Railroad to begin building a road eastward from Sacramento, California to that same border. The law granted the two railroad companies more than 44 million acres of land to support their efforts. With the precedent well-established, during the next 10 years Congress granted more than 84 million acres of land to 55 additional companies, thus bringing the total amount of land granted the railroads to approximately 130 million acres.

Land Grants for Homesteaders

In 1862, Congress followed through on a long-standing idea of granting public domain land to individuals. A series of Preemption Acts passed from 1813 to 1841 had allocated to several new states more than five million acres of public domain land they could use to grant so-called "squatters' rights" to the earliest settlers of those parcels. The Homestead Act of 1862 and its successors followed through on officials' desires to allow greater numbers of individuals and families to settle newly admitted states in the Midwest and West as quickly and easily as possible. They permitted almost anyone over 21 who was a United States citizen and who had not taken up arms against the federal government to receive 160 acres of land. The recipient had to promise to live on the land, improve it and farm it for at least five years. By the end of the 19th century, homesteading laws and other federal acts granting mineral or timber rights enabled the government to distribute more than 90 million acres of free land to those willing to help accelerate the settlement of the country.

Land Grants for Educational Institutions

The federal government began requiring new states to set aside land for elementary schools as early as 1787. During the first third of the 19th century, it made Enabling Act grants for the establishment of different types of public schools, including so-called "normal" schools to train teachers. In the mid-1850s, several educators recognized the need for a new type of

advanced school to teach agricultural science, mechanical arts and other practical subjects needed by a nation that was rapidly industrializing.

Bills to establish a network of such colleges, like many other measures calling for increased federal involvement in the nation's activities, ran into strong opposition from southern legislators and/or President James Buchanan. In July 1862, President Lincoln signed legislation that had long been sponsored by Senator Justin Morrill of Vermont. The act bearing his name called for the donation of large tracts of land to any state agreeing to establish a college to teach agricultural and mechanical arts. Congress allocated more than 17 million acres of free land for that purpose, including almost 11 million that legislature appropriated from more than 240 Native American tribes.

Satisfactory Outcomes

Granting free land to many types of recipients accomplished an important government priority—the relatively rapid settlement and development of the country. Census records show that the United States gained 7.5 million people over the 30-year period from 1800 to 1830; in the next two 30-year periods, the increases were 18.6 million and 31.5 million, respectively. In 1900, the columnist and editor who in 1845 first used the term "Manifest Destiny" would likely have been surprised at how quickly that cultural meme had come true.

Many individuals who received land grants did indeed build homes and small businesses, and helped establish islands of civilization throughout the wilderness. Others formed enterprises that harvested a variety of natural resources, thereby creating not only sources of great personal wealth, but also larger businesses that brought important commercial benefits to individual towns and regions. Turnpike and canal companies used their land grants to build hard-packed roads and canals that provided vital avenues of transportation between such settlements. The railroads established pathways of movement to enable the transportation of people and goods over moderate distances in the Midwest and the South and longer distances in the West.

Civic leaders and administrators who used land grants to establish many types of schools, as well as hospitals, penitentiaries and other public institutions, also contributed to the development of the national economy. Bringing such elements of an advanced society to the continually settling lands west of the Appalachian Mountains was an important feature that helped differentiate the United States from other developing wilderness territories in the world.

Unintended Consequences

The federal land policy that saw Congress give away 40% of the country's public domain lands during the 19th century also had some unintended consequences.

- In mandating specific uses for portions of the proceeds from public land sales, the Enabling Act imposed more restrictions on the sovereignty of states admitted after 1802 than any law had imposed on the original 13 colonies.
- The Homestead Act and related laws were clumsily written. They did not consider the differences among fertile land, poor grazing land, barren mountaintops or desert land. They did not include flexibly sized grants that would be appropriate in different regions. And they did not prevent land speculators from acquiring large tracts of land and using aggressive tactics to take undue advantage of the claiming process.
- The Morrill Act that granted land for the establishment of colleges for agricultural sciences and mechanical arts did not include sufficient funding to support the research into agricultural innovation its authors envisioned. Moreover, many innovations these universities did develop occurred as what one critic has called "disembodied knowledge flows" that did not necessarily have the intended benefits on the schools' local agricultural economies.
- Railroads built in the West enabled the establishment of settlements where there had been none—and might have been none for many more years. In doing so, they enabled some settlers following the railroads westward to produce an oversupply of crops, cattle or minerals that could not be efficiently absorbed by the marketplace.
- The Pacific Railway Acts granted land to railroad corporations, not to the states, thus robbing those legislatures of their right to regulate and tax that acreage. Constructing the first railroad from Omaha to Sacramento led indirectly to a long period of bloodshed as thousands of Native Americans fought to retain possession of their ancestral lands. Moreover, building five separate transcontinental roads over the period 1863–1893 required the devastation of many natural resources.

Land Grants in Context

Granting restricted or unrestricted land grants to the states and a variety of private parties was only one tool the United States government used to distribute its public domain lands throughout the 19th century. Congress also used negotiated land sales and public auctions to generate revenue while distributing its territory. In 1872, it began federalizing large tracts of land that included forests, mountains, thermal springs and other natural features. Each policy had its advantages and disadvantages. Only a detailed counterfactual analysis could determine whether the US economy would have evolved just as rapidly and efficiently if the government had *not* decided to give away millions of acres of land. $

Michael A. Martorelli is a Director Emeritus *at Fairmount Partners and a frequent contributor to* Financial History. *He earned his MA in History from American Military University.*

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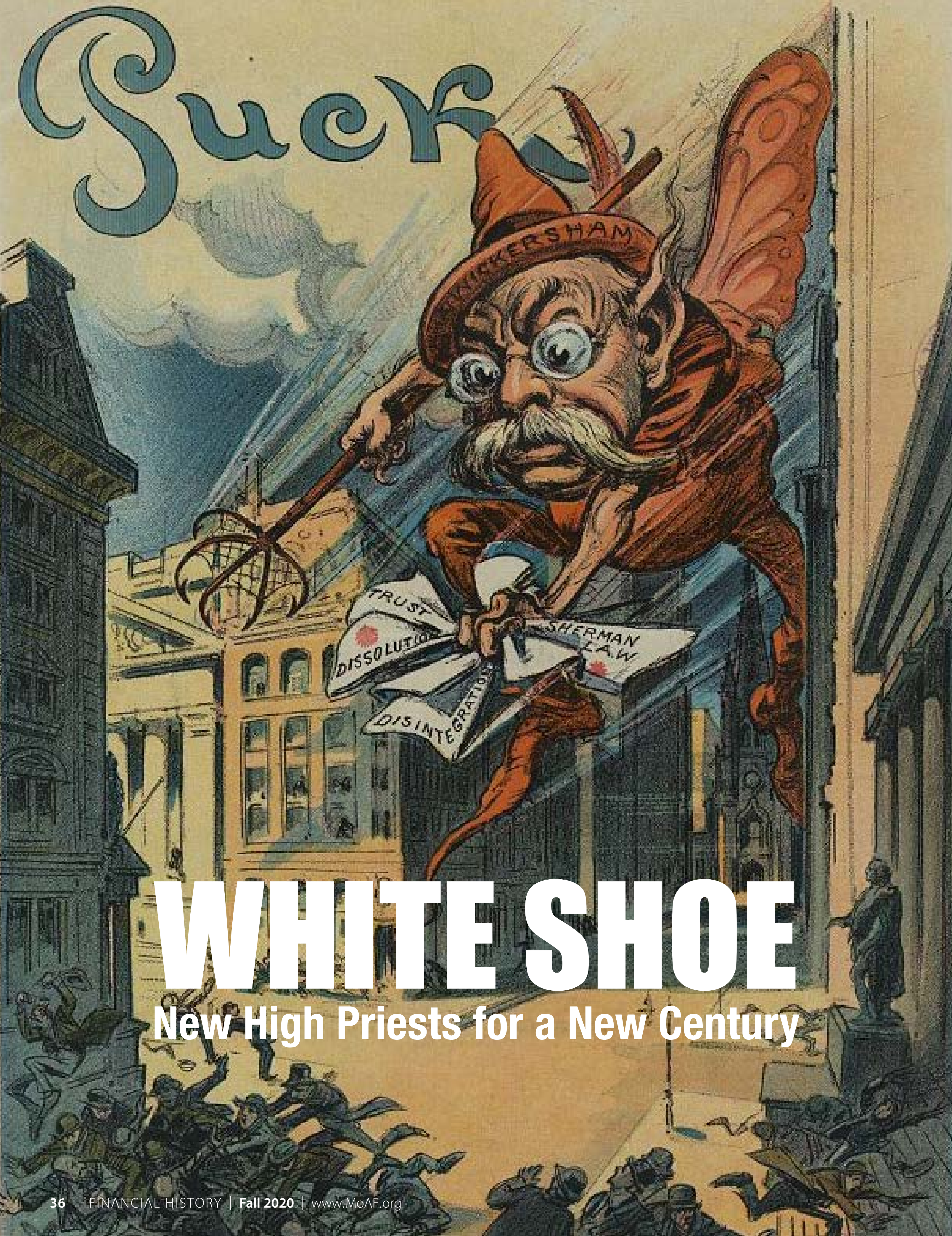


WHITE SHOE

New High Priests for a New Century

By John Oller

In 1899, when Paul Cravath became a partner in the prestigious Wall Street law firm co-founded by William H. Seward, Abraham Lincoln's Secretary of State, the century wasn't the only thing about to change. The standard paper clip had just been invented, and rubber bands had recently come into common use. Although that was progress in office supplies, the Seward firm, like many others, was stuck in old ways: There was no filing system, and the index was kept in an office boy's head.

For all their supposed smarts, lawyers have often lagged in adapting to technological change. After the first elevator was installed in the Seward firm in 1885, head partner Clarence Seward refused to use it. If he didn't feel like climbing the two flights of stairs to his office, he just stayed home.

When the first telephones came to New York City in 1878, lawyers considered it unprofessional to use them for business calls. Many doubted their privacy, perhaps because there was a single central exchange called "Law" for all lawyers in the boroughs. As late as 1911, recalled John Foster Dulles, who joined the prestigious Sullivan & Cromwell firm that year, "Some of the older partners felt that the only dignified way of communication between members of the legal profession was for them to write each other in Spencerian script, and to have the message thus expressed delivered by hand."

Lawyers were also slow to accept the typewriter, commercialized in the 1870s. Until the mid-1880s, documents were drawn up in longhand by men at high slanting desks who stood or sat on tall stools. The best penman would write page after page and pass them down the line to scriveners, who laboriously copied them at long tables.

Stenographers who could take dictation were not used, because they were seen as intrusive. Letters circulated in their original form and were accompanied by earnest requests to return them as soon as possible. Only when the demands of the expanding legal profession finally became too much to handle in the old manner, around the turn of the century, did firms begin hiring female stenographers, secretaries and typists to replace male copyists.

Paul Cravath, then 37 and the Seward firm's newest partner, saw a need for change. The first thing he did upon joining the firm was to begin a filing system, hiring a female librarian from Columbia University to run it. But it was really the entire law office system he wanted to revamp. He realized that in the 20th century, law firms had to become more like their most successful corporate clients: organized, efficient and capable of expanding.

For most of the 19th century, the typical law office was a solo practice or a two-man partnership with a few loosely affiliated clerks. Partners shared office space and expenses but not each other's legal fees. Young men worked as clerks without pay for a few years, performing secretarial duties in exchange for a desk and access to the partners' library. Essentially free agents, they made their living by seeking out cases and clients of their own. Often they had not attended law school or taken any written bar examination before they were admitted to practice.

Law clerks received no systematic education or training at the firm; instead, their learning came from reading law books, copying papers and observing the partners at work. Frequently the clerks were relatives or friends of the partners or the firm's clients and no one expected them to contribute materially to the actual legal work of the firm.

But to Cravath, the whole arrangement lacked discipline. It was tainted by nepotism, created divided loyalties and produced mediocrity, not excellence. He decided there had to be a better way. He would hire the best law students, carefully train them, pay them to secure their allegiance, work them to the bone, promote them to partnership if they proved themselves and send them on their way if they did not. As partners they would collaborate and share profits. It would become known as the "Cravath system"—a set of business management principles still in use today by law firms and consulting companies.

The system was perfectly geared to the type of lawyer Cravath had become. By the turn of the century he was one of the growing cadre of corporation or "office" lawyers who helped create the foundations of modern American business. Working hand in glove with their corporate clients, visionary lawyers such as Cravath were devising and implementing legal strategies that would drive the business world throughout the 20th century. They headed what became known as "white shoe" firms, named for the white buck shoes worn by generations of Ivy League college men who, as members of the WASP elite, went on to run the leading law, banking and accounting firms on Wall Street.

From the early 19th century to the Gilded Age, which began in the 1870s, the elite members of the bar were those charismatic lawyers whose rhetorical skills enabled them to advocate persuasively in courtrooms. The classic example was the great orator and statesman Daniel Webster, who argued more than 150 cases before the US Supreme Court and won many early landmark decisions. Another familiar image was that of the prairie lawyer Abraham Lincoln, who rode the circuit around the little towns of Illinois, making folksy appeals to juries in disputes over cows, hogs, smalltime commercial transactions and the occasional criminal case. According to legend, he almost always won.

At least through the Civil War, businessmen sought out lawyers only when they were ready to fight in court. Clients gave little thought to using lawyers as preventive measures. But the growing industrialization and urbanization of the country in the post–Civil War era, and the increasing number, complexity and sheer size of corporations, called for a new kind of lawyer—a practical man of

This 1911 *Puck* magazine cover shows a flying creature labeled "Wickersham" holding a large webbed fork in one hand and papers labeled "Trust," "Dissolution," "Disintegration" and "Sherman Law" in the other, descending on a fleeing crowd of Wall Street men. George Wickersham became known as "the scourge of Wall Street" for his aggressive prosecution of antitrust cases, angering some of the same companies he had once represented.

business whose skills were more those of a negotiator, a facilitator and a drafter of documents than those of a trial advocate.

This new breed of high-powered corporation lawyer, originating in New York City around 1890 and flourishing there to this day, made his chief domain the conference room rather than the courtroom. The prototype was Francis Lynde Stetson, a courtly yet steely gentleman known as the "attorney general" for the great financier J.P. Morgan. Stetson helped Morgan form the largest companies in the world—including the biggest of them all, US Steel—and tried his best to keep his famous client out of trouble, which was no easy task.

There was also William Nelson Cromwell, the silver-tongued business lawyer from Brooklyn who specialized in forming giant new corporations and resuscitating old ones when they went bust. Some critics thought he played close to the line, but none could doubt his resourcefulness. For his role in creating the Panama Canal—and the revolution that led to it—he would become the best known of all the early Wall Street lawyers.

Elihu Root, a patrician of New England stock, was the quintessential wise man who glided easily between the highest levels of government in Washington and his private legal practice in New York. An elitist, procorporate member of the Republican establishment, and a strong exponent of an expansionist foreign policy, Root was as responsible as anyone, save the Presidents he served under, for transforming America into a world power.

Samuel Untermyer, the rare Jewish Wall Street attorney, was the anti–white shoe corporate lawyer. He became a millionaire representing large corporations, then turned on them with a vengeance to become a populist crusader for business reforms. The fresh, homegrown orchids he always wore in his lapel belied the ferociousness with which he attacked his big business antagonists.

Then there was Cravath, the youngest of the group, who launched a new model of law firm management that would be copied by nearly all major white shoe firms.

Paul Cravath, one of the new breed of Wall Street corporate lawyers who built American big business, circa 1899.

Frank Stetson, photographed around the time he became president of the New York City Bar Association in 1910.

Indeed, the name Cravath would become synonymous with the large Wall Street "law factory" that came into existence in the early part of the 20th century.

Paul Drennan Cravath was a classic small-town boy made good. He was born in July 1861, a week before the First Battle of Bull Run, in the tiny hamlet of Berlin Heights, Ohio, a few miles south of Lake Erie. Unusual for the time, both his parents were college graduates, from nearby Oberlin College, the first college in the country to admit women and Blacks. Cravath's father, Erastus, was a Congregationalist minister and abolitionist who made the betterment of the African American his life's work. After the war he helped found a school for newly freed Blacks in Nashville, Tennessee, that became Fisk University, where he served as president for 20 years. Accompanied by his family, including 14-year-old Paul, Erastus Cravath took the Fisk Jubilee Singers on a European tour to raise funds for the university.

Cravath's mother, Ruth Anna, a strong Quaker, was nearly Erastus's opposite. A no-nonsense woman, and something of a worrywart, she instilled in young Paul a sense of pragmatism to complement his father's idealism, as well as a love of books and music.

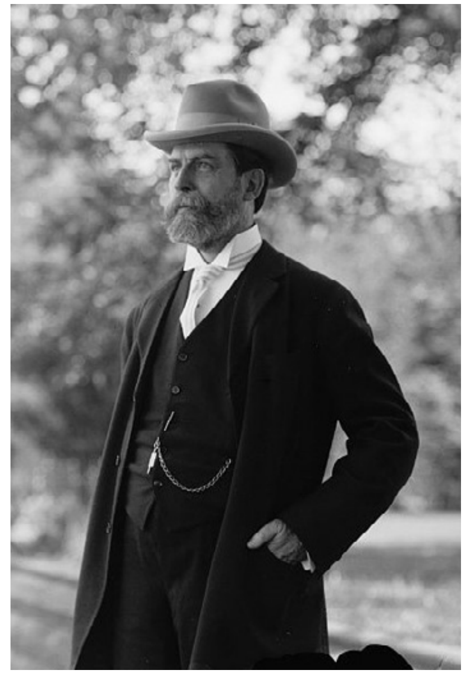
Paul Cravath received his early education at Brooklyn Polytechnic Institute while the family briefly lived in Brooklyn after the war. He attended college preparatory school in Geneva, Switzerland, during the family's European excursion and toured Germany with his father.

After graduating from the religiously oriented Oberlin in 1882 (the faculty described him as "brilliant" but a "mischief-maker"), Paul eschewed the evangelical life to pursue his ambition to become a lawyer. He studied in a law office in Minneapolis, where he intended to settle; then, after an attack of typhoid fever, he became a salesman for the Standard Oil Company in Minnesota. With the money he earned he went east to study at Columbia Law School in New York, graduating at the top of his class in 1886.

Upon graduation, Cravath took an apprentice clerkship with the Manhattan firm of Carter, Hornblower & Byrne, headed by Walter S. Carter, a leader of the New York bar. Dubbed by one legal historian as "a collector of young masters" and "the progenitor of many law firms," Carter developed a reputation for attracting the

William Nelson Cromwell, a millionaire corporate lawyer, was known as "the physician of Wall Street" for salvaging the wreckage from railroads and other large companies when they went bankrupt.

Elihu Root began his career as a Wall Street lawyer and later served as Secretary of War for Presidents McKinley and Roosevelt, as well as Roosevelt's Secretary of State and as a US senator.



Charles Evans Hughes, who began his career as a corporate lawyer in partnership with Cravath, rose to national prominence as lead investigator of the life insurance industry for the New York State Legislature in the wake of the Equitable scandal.

best law school graduates from Columbia and Harvard, many of whom went on to illustrious careers of their own. Among them was Charles Evans Hughes, who married Carter's daughter and would later serve as governor of New York, US Secretary of State, Chief Justice of the US Supreme Court and 1916 Republican candidate for President.

Carter's office was described as "a veritable nursery for young lawyers of talent." Another of Carter's "kids," as he called them, was George Wickersham, President William Howard Taft's future attorney general. Wickersham would become known as "the scourge of Wall Street" for his aggressive prosecution of antitrust cases, angering some of the same companies he had once represented.

Carter's younger partner, the elfin William Hornblower, was nominated to the Supreme Court in 1893, at age 42, by his friend Grover Cleveland. Opinionated and headstrong, and a voice against "political quackery," Hornblower saw his confirmation fail, a victim of private animosities. But he did frequently argue before the Supreme Court, even honeymooning in Washington, DC, so his new bride could watch his argument.

Hornblower was an irritable and difficult man, at least as Hughes remembered him many years later. Hughes never forgot how, as a young lawyer proofreading one of Hornblower's eloquent briefs, he was castigated for an egregious error. Hughes misread Hornblower's handwriting, with the result that the phrase "seven thousand dollars in CASH" came out in print as "seven thousand dollars in COAL."

Hornblower was one of the best lawyers in the city, though, and he came to believe he deserved a larger share of the Carter firm's profits. In 1887 he and Byrne broke with Carter to form their own firm. They took the Carter firm's more lucrative clients with them and asked Cravath to join them. But young Cravath chose to stay with his mentor Carter, who offered him a partnership together with Hughes.

To cement the deal, Hughes took Cravath to dinner at Martinelli's, one of the city's top Italian restaurants, and over a bottle of Chianti told him they would name the firm Carter, Hughes & Cravath. Banging his fist on the table, Cravath (who apparently had not been listening closely), exclaimed, "Make it Carter, Hughes *& Cravath*, and I'll join." On January 1, 1888, the newly christened firm opened for business at 346 Broadway in the New York Life Building, near City Hall and the courthouses.

Only a prodigy such as Cravath could have been named a partner in a respected New York law firm a mere year and a half after admission to the bar. His extroverted personality, supreme self-confidence and imposing physical appearance all worked in his favor. At six feet four, 240 pounds, he had a huge head accentuated by small circular eyeglasses, and thick, wavy brown hair. In the words of one of his partners, he was a man of "massive elegance" and "glittering presence."

Soon enough Cravath's personal magnetism helped him land his first major client. Cravath's maternal uncle was an officer in some of George Westinghouse's companies in Pittsburgh, and he introduced his nephew to the famed inventor of the railway air brake. A few years earlier, Westinghouse had become interested in the emerging field of electrical power. Now, Westinghouse was seeking someone talented and energetic enough to represent him in his increasingly bitter legal battles with Thomas Edison. It would make Cravath's name within New York's legal and business community.

Paul Cravath, Francis Lynde Stetson, William Nelson Cromwell, Elihu Root and a handful of other elite members of the New York bar were instrumental in forging the great capitalist enterprises that emerged in late Gilded Age America and continued their growth into the following century. Their influence was felt mainly during that period in American history, from roughly 1890 to 1916, known as the Progressive Era and encompassing the Roosevelt and Taft presidencies and Wilson's first term. During this period, and extending through World War I, the basic elements of America's liberal democratic order took root: corporate industrial capitalism, the administrative-regulatory state and an internationalist foreign policy.

The story of the early white shoe lawyers has rarely been told, and never in assembled form. To some extent they have been dismissed or denigrated as mere tools of the oft-maligned robber barons. And there is some validity to the charge. As handmaidens to their corporate clients, these lawyers were architects of the monopolistic new corporations so despised by many. They also acted as guardians who helped the kings of industry fight off what they considered to be government overreaching. Depending on one's point of view, the original Wall Street lawyers taught their clients either how to circumvent restrictive legislation or, as Untermyer put it, how to keep "prayerfully within the law." Popular humorist Finley Peter Dunne said the corporation lawyer could take a law that looked like a stone wall to a layman and turn it into a triumphal arch.

And yet the excesses of those years tend to obscure these lawyers' achievements. They devised new, more flexible forms of borrowing and financing that provided lubrication for the growth of American business. They also made it easier for bankrupt companies to rehabilitate themselves financially and get back on their feet following the economic panics and depressions that so frequently afflicted the nation in those years. They helped create a New York City transportation system without equal in the world. As one legal scholar put it, many decades after their heyday had passed, "In a... Cromwell, a Cravath, or a Stetson, we shall find builders of American society as intellectually bold as a John Marshall whose molding of Constitutional interpretation and whose fashioning of the Union are familiar to all of us."

The issue that consumed the nation during the Progressive Era was the concentration of wealth and power in the hands of a small group of plutocrats who controlled such industries as oil, steel, tobacco, banking and the railroads. And in the debates over this issue, the leading Wall Street lawyers had a major voice. Although resistant to radical reform, the most influential of them came to accept the need for more extensive market regulation to prevent the abuses of the past and to increase trust in the system. They recognized that the law had not kept pace with the nation's astoundingly rapid industrial growth and that new rules were needed so the law might catch up with economic reality.

Given their druthers, men such as J.P. Morgan and John D. Rockefeller would have preferred no rules at all constraining their business behavior. It was left to their lawyers to check their baser impulses and to navigate them through the maze of a new, more progressive legal regime. The top corporate lawyers pushed their clients away from a Wild West mentality toward greater transparency and concern for investors, and thereby served as a mediating and stabilizing force in a time of turbulent change. Having helped create the vast new impersonal corporations, the great Wall Street lawyers became part of the effort to tame them.

To help harness the growth of corporate capitalism, some of the most talented private practitioners on Wall Street took on active reform roles in government, often shuttling between private practice and public service. Who better, for example, than a Charles Evans Hughes, who had represented major life insurance companies, to expose corruption within the life insurance industry through a public investigation? And what better attorney general to prosecute big antitrust cases than George Wickersham, who had made a practice of defending large corporations before he entered Taft's cabinet?

The white shoe lawyers also exerted their influence in foreign affairs. Almost all of them strongly supported American intervention in World War I. Wall Street lawyers assisted their clients in supplying and financing the Allied war effort and pushed for American "preparedness." Cravath and some of his brethren went to Europe on wartime missions and, in the course of their work, put themselves in harm's way. A number of white shoe lawyers, including a young John Foster Dulles (a protégé of Cromwell's and a future Secretary of State), also helped negotiate the Treaty of Versailles, which ended the war, and actively participated in the debates over American entry into the League of Nations.

Both at home and abroad, the white shoe lawyers were at the forefront of what has been called the "search for order" that characterized the period from 1890 to 1920 and led to the creation of a new organizational society. They began by imposing structure and efficiency on their own private law firms. They helped create the legal system that governs corporate behavior to this day. And they laid the foundations for an international order that eventually took hold. In doing so, the white shoe lawyers helped shape the new American century. $

John Oller is a retired white shoe Wall Street lawyer who spent 30 years as an associate and then partner at Willkie Farr & Gallagher LLC, one of New York City's most venerable law firms. He is the author of six books.

This article was adapted from *White Shoe: How a New Breed of Wall Street Lawyers Changed Big Business and the American Century* (Dutton, 2019).

WHERE ARE THEY NOW?

Howard, Weil, Labouisse, Friedrichs & Co.

Founded in New Orleans in 1950

Howard, Weil, Labouisse, Friedrichs & Co. CEO John B. Levert in his office.

By Susie J. Pak

The story of Howard, Weil, Labouisse, Friedrichs & Co. begins with the family of Jean Pierre Labouisse, the son a French immigrant and a cotton merchant in New Orleans. Labouisse's wife, Theodora Maria Smith, came from a prominent Revolutionary-era American family. Her paternal grandfather, Samuel Stanhope Smith, had been president of Princeton College. Her paternal grandmother, Ann Witherspoon, was the daughter of John Witherspoon, who had also been a president of Princeton College and was a signer of the Declaration of Independence. Her mother, the former Sarah Henrietta Livingston Duer, was a descendant of William Alexander, a general in the Revolutionary War.

Jean Pierre and Theodora's son, John Witherspoon Labouisse, was one of the founders of a partnership that eventually became Howard, Weil, Labouisse, Friedrichs & Co. He studied at Harvard College, left to join the Confederate Army and, after the Civil War, returned to New Orleans and entered the cotton business.

John W. Labouisse became a member of Labouisse, Sanchez & Watts, and in 1880 he formed a co-partnership with James De Buys, a former member of Samuel H. Buck & Co., where Labouisse had also been a member. Their cotton brokerage firm was called De Buys & Labouisse.

De Buys & Labouisse (f. 1880, New Orleans)

In 1866, John W. Labouisse married the former Catherine Caroline Richardson, the daughter of H.D. Richardson and the former Catherine Priestly (also spelled Priestley), the great-granddaughter of Dr. Joseph Priestly, the philosopher and scientist. Their son, John Peter Labouisse, also became a leading cotton factor. In 1905, John Peter Labouisse married the former Mary Burton Hayward, the daughter of James D. Hayward, a cotton press proprietor. Their son, John Priestly Labouisse, graduated from Woodberry Forest School (Virginia) and then studied at Princeton University and Tulane University. In 1929, he joined the New York firm of Harris, Forbes & Co. and later Chase-Harris-Forbes, Inc.

Lamar, Kingston & Labouisse (f. 1933, New Orleans)

In 1933, John Priestly Labouisse left Chase-Harris-Forbes Inc. and became a partner in the firm of Lamar Kingston Labouisse. His partner, Lamartine Varnedoe Lamar, was a Georgia native, a graduate of St. Paul's School and Princeton University, and was married to the daughter of Albert Octave Levert, a well-known Louisiana sugar planter. In 1946, Labouisse joined in a partnership with George S. Friedrichs and Alvin H. Howard to found the firm of Howard, Labouisse, Friedrichs & Co. while Lamar left to create the firm of Lamar & Kingston.

Legend has it that Friedrichs and Labouisse "tossed a coin (a nickel) in 1946 to see whose name would be listed second in the title of the newest investment securities house in New Orleans." Howard's name came first because "he put up $100,000 of the capital, while Friedrichs and Labouisse scraped up $10,000 each." Because Howard did not have stock brokerage experience, unlike his partners, "the three founders came in as equal partners."

Howard, Labouisse, Friedrichs & Co. (f. 1946, New Orleans)

All three partners were from New Orleans. George Shelby Friedrichs was a 1933 graduate of the Tulane School of Business. In 1935, he joined the Securities and Exchange Commission, and in 1936 he joined the firm of Woolfolk, Huggins & Shober, where he became a partner in 1946. Alvin H. Howard was also a New Orleans native and a graduate of the University of Virginia. His father, Alvin Pike Howard, was a Dyer's Military Academy, St. Paul's School and Yale graduate,

The Howard, Weil, Labouisse, Friedrichs & Co. trading floor in the Maritime Building in New Orleans.

the vice president of the *Times-Picayune* and the vice president of the Hibernia National Bank of New Orleans.

Howard, Weil, Labouisse, Friedrichs & Co. (f. 1950, New Orleans)

In 1950, Howard, Labouisse, Friedrichs merged with Weil & Co., a specialist in bonds, and the firm was renamed Howard, Weil, Labouisse, Friedrichs & Co. John P. Labouisse's son, John P. Labouisse III, a Georgia Tech graduate, also became a partner in the firm. He represented the fourth generation of his family in business in New Orleans. In 1969, Howard, Weil, Labouisse & Friedrichs merged with the New Orleans firm of Viguerie, Hayne & Chaffe, Inc., whose partners became partners in Howard Weil.

Howard, Weil, Labouisse, Friedrichs & Co., Inc. (f. 1971, New Orleans)

Howard Weil Financial Corporation (holding company)

In 1971, Howard, Weil, Labouisse, Friedrichs & Co. changed from a partnership to a corporation. G. Shelby Friedrichs became president and chief executive officer. By that time, the firm had 17 offices and 240 employees. In 1984, Howard Weil Financial Corp.—the holding company of Howard, Weil, Labouisse, Friedrichs & Co.—filed an initial public offering of one million shares.

Friedrichs stepped down in 1985, and John B. Levert Jr. and Alan C. Arnold were named executive officers of Howard Weil Financial Corporation. Levert became chairman of the board and chief executive officer. Arnold became president and Friedrichs became chairman *emeritus*. A New Orleans native and graduate of Loyola University (New Orleans), Arnold served in the Army Field Artillery and then joined Howard, Weil. He became executive vice president in 1976.

Legg Mason Inc. (1987)

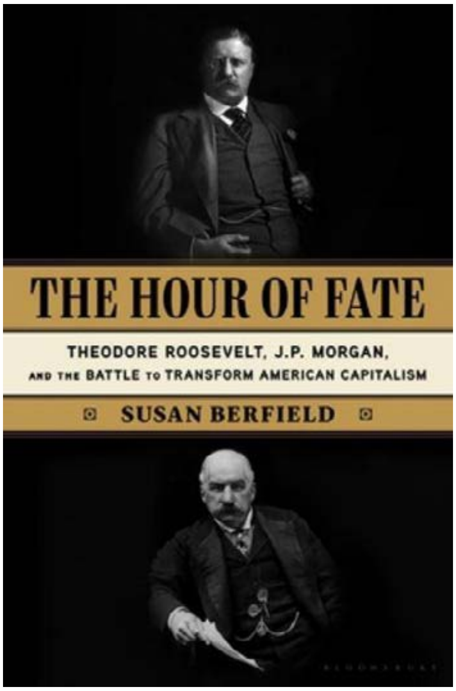
In 1987, Howard Weil Financial Corporation, the holding company of Howard, Weil, Labouisse, Friedrichs Inc., merged with Legg Mason Inc., a Baltimore brokerage house. At the time of the agreement made for the merger, Howard Weil had 26 brokerage offices in Louisiana and nearby states, as well as a capital of $19 million. The firm became a subsidiary of Legg Mason, a much larger firm, whose capital was $94.5 million. John B. Levert Jr., president of Howard Weil Financial Corporation, and Alan C. Arnold, the president of the brokerage subsidiary, became directors in Legg Mason. According to *The Washington Post*, "Under the terms of the merger, approved by shareholders of both brokerage companies, Legg Mason issued 1.781 million shares of common stock to the 104 Howard Weil shareholders. Shareholders of Legg Mason also approved an increase in authorized shares of common stock from 12 million to 20 million." Howard Weil retained its name and headquarters in New Orleans.

Scotiabank (2012)

By 2012, Howard Weil Incorporated was a US energy investment boutique firm. That year, it was acquired by Scotiabank, the descendant of the Bank of Nova Scotia. Howard, Weil, Labouisse, Friedrichs, Inc. changed its name to Scotia Howard Weil Inc. and became a subsidiary of Scotia Capital (USA). At the time of the acquisition, Mike Durland, the co-CEO of Global Banking and Markets for Scotiabank said, "… Howard Weil is strategically important for Scotiabank, providing not only an expansion of our product footprint in the energy sector, but also dedicated equity sales, trading and research capabilities in the US." $

Susie J. Pak is an Associate Professor in the Department of History at St. John's University (New York). A graduate of Dartmouth College and Cornell University, she is the author of Gentlemen Bankers: The World of J.P. Morgan *(Harvard University Press), a Trustee of the Business History Conference, co-chair of the Columbia University Economic History Seminar and a member of the editorial advisory board of the* Business History Review. *She is also a member of the* Financial History *editorial board.*

About Where Are They Now? The "Where Are They Now?" Series traces the origins and histories of 207 of the underwriters of the 1956 Ford Motor Company IPO. The research for this series has been generously funded by Charles Royce of The Royce Funds. The Museum's "Where Are They Now?" blog can be found at: wherearetheynowblog.blogspot.com.



The Hour of Fate: Theodore Roosevelt, J.P. Morgan, and the Battle to Transform American Capitalism

By Susan Berfield

Bloomsbury Publishing, New York, 2020
393 pp. with appendices, notes, references and index
$27.95

Big business is good for America: global scale and investment, long-term stability and growing employment. Big business is not good for America: stifled competition, predatory pricing, one-sided wage and employment power. This argument, in one form or another, has been going back and forth in the United States since before the ink dried on the Constitution.

Think Hamilton v. Jefferson on the national debt, or Jackson v. Biddle on a national bank. Bigger is better v. bigger is "badder." And this debate is no historical relic, as the CEOs from Facebook, Amazon, Alphabet and others are finding out. How does a democracy balance the needs and ideals of a decentralized polity with the tendency of business and finance to centralize and dominate?

In her book, *The Hour of Fate*, financial journalist Susan Berfield has brought us the story of the Northern Securities trust, an attempt (from 1901 to 1904) to create a railroad giant that extended from Chicago to the Pacific Coast. Berfield has chosen her topic wisely. It has a terrific cast. How can you beat having on one side J.P. Morgan, as the architect of the railroad trust plan (*cue deep, dark organ notes*), versus on the other side Theodore Roosevelt, the brash, "Square Deal" President, as Morgan's nemesis (*cue Sousa march*)? The forbidding finance giant from the 19th century battles the first political hero of the 20th century. It's a UFC cage match, with the fighters' faces glaring from the dust jacket of the book. Let's get ready to rumble.

After some preliminaries on McKinley's 1901 assassination and Roosevelt's ascendance to President, the author keys in on J.P. Morgan and his hatred of "ruinous competition." Railroads were the internet of their day—metal bands connecting and moving people, goods and ideas around the country. By the turn of the century, Morgan had had enough of railroads slashing prices and eating capital. He had already "reformed" several industries, and looking West, he saw an opportunity to bring three competing railroad lines—the Northern Pacific, the Burlington Northern and the Great Northern—into a single enterprise.

Morgan's task was not easy. Berfield does an admirable job navigating the reader through Morgan's personal, financial and legal maneuvering with E.H. Harriman, James J. Hill and J.M. Forbes to wrestle control of the three roads into the blandly named holding trust, Northern Securities Company. Morgan ignored warnings about the federal Sherman Antitrust Act of 1890 and incorporated the company in New Jersey in 1901.

President Roosevelt had different ideas. He was a reformer from head to toe. Although 20 years younger than Morgan, and running in the same wealthy New York City social circles, he was completely unafraid of Morgan's reputation and ballast. In his first message to Congress, he outlined his ideas on government's role in business. Large business combinations, he wrote, were certainly entitled to generate great wealth and benefits. However, operating as they did within society and protected by our common institutions, they must not abuse their heft to stifle competition. Soon after, he commissioned Attorney General Philander Knox to sue to break up the Northern Securities trust.

In late 1903, the US Supreme Court heard the case. The arguments were familiar. Morgan's lawyers argued that corporate owners could do what they wished with their assets. In addition, they asserted that even though the three railroads' ownership were combined in a single trust, this would not deter competition. Attorney General Knox contended that such arguments were nonsense, and that the trust was designed to inhibit competition. It was a clear violation of the Sherman Antitrust Act. The outcome was close. In a 5–4 vote, the Supreme Court ruled that Northern Securities needed to be busted up. Morgan had lost. The momentum to reign in corporate power picked up. The Standard Oil case, which attacked the petroleum trust, was initiated six years later.

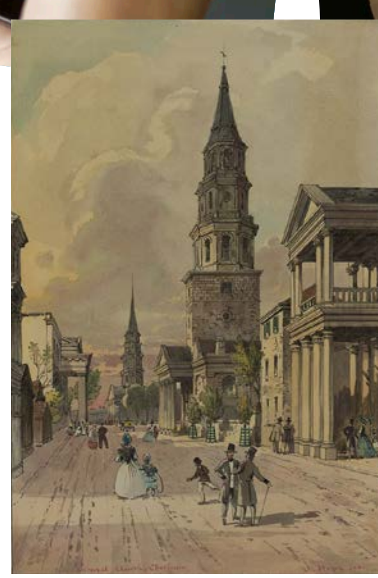
The pace and tone of the book reflects Berfield's background in journalism—in a good way. We know how the story ends, but all along there are enough surprises to keep us reading. There is a side story on the coal strike which occurred during the same period—it feels shoehorned into the narrative. And I think the title is overheated, given that Northern Securities was but one important episode in this long and unfinished story.

"Unfinished" is the operative word here. For the first time in a long time, Washington seems to agree on at least one issue: big tech needs oversight. Accusations of stifled competition and market abuse are getting louder. Although railroad platforms are a long way from digital platforms, *Northern Securities v. US* is a saga worth reading about right now. $

James P. Prout is a lawyer with more than 30 years of capital market experience. He now is a consultant to some of the world's biggest corporations. He can be reached at jpprout@gmail.com.

TRIVIA QUIZ

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?



1. What type of app was Venmo originally?

2. The formal era of railroad land grants began with the passage of The Land Grant Act. In what year was the Act passed?

3. What type of US currency has faced a shortage amid the COVID-19 pandemic?

4. What 18th century Swiss writer was an early spokesman for the socialist idea of collective ownership?

5. What chairman and CEO of JPMorgan during the 1980s aspired to turn the firm into a "universal bank" that could offer both wholesale banking and investment banking services?

6. What type of currency is sometimes referred to as "digital gold"?

7. What two technologies, introduced in the 1870s, were lawyers on Wall Street and elsewhere slow to accept?

8. In what two southern US cities did many free Blacks prosper as businessmen in the antebellum period?

9. How many days can the coronavirus remain on paper currency, according to a study by the Australian Centre for Disease Preparedness?

10. On what day of the year has the stock market historically performed the best over the past 70 years, with an average gain of 0.54% on the S&P 500?

1. A music app **2.** 1850 **3.** Coins
4. Jean-Jacques Rousseau **5.** Lew Preston
6. Bitcoin **7.** Telephone and typewriter
8. Charleston and New Orleans
9. 28 days **10.** October 28